

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Green growth

Sanyo warms to solar energy

Page 8

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Thursday January 10 1991

D 8523A

World News

Georgia set for collision with Moscow over decree

The rebellious Soviet republic of Georgia set itself on a potentially bloody collision course with Moscow, flatly rejecting a decree by President Mikhail Gorbachev - which demanded that all Georgian police be withdrawn from the region of South Ossetia - and warning that its enforcement would amount to "an effective declaration of war." Page 12

Soviet tank deceit

Claims that the Soviet Union moved thousands of tanks behind the Ural mountains last year, to escape counting in east-west arms cuts, have been given new credibility by the country's leading conservative newspaper. Page 3

Argentina accused

The US ambassador to Argentina gave an unmistakable indication of US anger at growing corruption in the government of President Carlos Menem. Page 4

Yugoslavs meet

The presidents of Yugoslavia's six republics will today try to find a common solution to the country's political and economic problems in an attempt to prevent the federation from splitting apart. Page 3

Apartheid declines

South Africa came a step closer to ending apartheid in education when previously white-only state schools in the Transvaal started the new school year by opening their doors to all races. Page 4

Soviet troops die

At least 16 Soviet soldiers were killed when a tank exploded at a Soviet military base in north-west Czechoslovakia the state news agency CTK reported.

El Salvador wins aid

President Bush has decided to free \$42.5m in frozen military aid for El Salvador after concluding that Salvadoran rebels are committing human rights abuses. Page 4

Mohawks clash

Dozens of Mohawk Indians armed with clubs and baseball bats clashed with Quebec police after an officer tried to arrest an Indian for a traffic violation on a reservation where a months-long native uprising flared last summer. Page 4

Guerrilla exchanged

Belgium admitted it had agreed to free a guerrilla in exchange for four hostages held by Palestinian radicals but refused to disclose when or where the exchange would take place. It is believed to involve Nasser Said, jailed in 1980 for a grenade attack.

Slovak arms pledge

The independence-minded republic of Slovakia will defy a Czechoslovak government ban on the production and export of heavy weapons which threatened nearly 70,000 Slovak jobs, the republic's prime minister has said. Page 3

Second Bilbao bomb

A man was seriously injured by a car bomb explosion in the same street in the Spanish port of Bilbao where a similar blast injured three people on Tuesday. Police suspected both explosions to be by the separatist group Eta.

German donation

Germans have donated more than DM125m (\$84m) to help the Soviet Union through a winter of food shortages, campaign organisers said.

Van Gogh found

A previously unknown painting by Vincent van Gogh owned by a couple in Milwaukee, Wisconsin, has been identified and will soon be auctioned in the United States, the Vincent van Gogh Museum in Amsterdam said.

Business Summary

Rescue costs for Bank of New England to top \$2.3bn

The rescue of the Bank of New England, the bank declared insolvent and taken over by US bank regulators, is likely to cost more than the \$2.3bn already disclosed, according to officials and bankers. Page 13

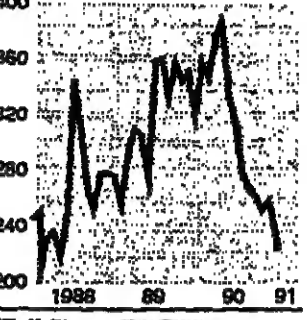
MARKETS: Sugar - prices

dipped below \$200 a tonne in London and 9 cents per pound in New York. Page 22

Sugar

London daily price (raw)

\$ per tonne



Wall Street: The Dow Jones Industrial Average was up 2.22 at 2,511.63 at mid-session.

Tokyo: The Nikkei average closed up 71.43 at 22,969.27.

Frankfurt: DAX index rose 21.85 to 1,375.80. Back Page 22

SAFARI and Sterling Drug

French and US pharmaceutical companies, are to pool businesses to create one of the world's largest drug companies. Page 13

AIRBUS Industrie, European

aircraft manufacturing consortium, is to review whether Pan Am, the troubled US airline, can continue leasing 21 Airbus aircraft. Page 13

JENRACHER Werke, the

Austrian engineering company, emerged as a serious contender for Telford Holdings, the UK rolling stock manufacturer. Page 13

JAPAN threatened to deny

permission for new flights to Tokyo by United Airlines and other US companies unless Washington approved routes for two Japanese cargo carriers. Page 12

INTERNATIONAL Energy

Agency, based in Paris, said western oil stocks were at their highest level for nine years. Page 2

BONN and the 16 federal

German states failed to agree on a new system of financing regional budgets. Page 3

LUFTANSA started its 1991

borrowing programme with two floating-rate note issues totalling DM1bn (\$600m), with the proceeds to go towards the German national airline's three-year fleet renewal programme. Page 15

AUSTRALIA'S current account

deficit fell sharply in November, raising hopes that the deficit for the year to June may fall below the government's \$13.5bn target. Page 4

EUROPEAN Commission has

launched an investigation into possible unfair state aid by the French government to Paris Mutual Urban (PMU), the country's betting monopoly. Page 3

UNILEVER, Anglo-Dutch

consumer products group, plans to double its food interests in Finland with a stake in Jalo-tajia, part of Huhtamäki, the Finnish food and pharmaceutical company. Page 14

LAZARD Brothers, the London

merchant bank, is taking a substantial minority stake in Les Filles Dreyfus, a Paris-based private bank. Page 15

DG Bank, Deutsche Genossen-

schaftsbank, central bank for Germany's co-operative institutions, must buy back bonds with a face value of DM1.2bn (\$800m) from its subsidiary Bausparkasse Schwäbisch Hall (BSH). Page 15

Geneva talks break down • Baker suggests future UN diplomatic role US says Iraqis will not withdraw

By Robert Mauthner and William Dufforce in Geneva and Ian Davidson in Paris

MR James Baker, US secretary of state, said yesterday that he had failed to persuade Iraq to withdraw from Kuwait during six hours of talks with Mr Tariq Aziz, the Iraqi foreign minister.

In a sombre account of yesterday's talks which he described as a "defining moment in history", Mr Baker said he delivered the clear message the choice between war or peace lay in Iraq's hands.

Nevertheless, Mr Baker left open the door to further last-minute diplomatic efforts to resolve the crisis, suggesting in particular that Mr Javier Pérez de Cuéllar, the United Nations secretary-general, could use his good offices in the search for peace.

Mr Baker described yesterday's talks as a "reasoned" and "serious" discussion, but said he had heard nothing from his counterpart which demonstrated either flexibility or new ideas. He said Mr Aziz gave no indication that Iraq intended to comply with UN resolutions demanding its withdrawal from Kuwait.

In a statement to reporters after the talks ended he said: "Time for Iraq to act."

President George Bush, who spoke to the secretary of state immediately after the talks and for 15 minutes during a recess for lunch, said Iraq had shown "no flexibility whatsoever". Speaking at the White House, he said: "Iraq has shown no flexibility, no propensity to co-operate."

Mr Baker, he added, "couldn't report any progress to us at all, not an inch."

Nevertheless, with just six days remaining to the expiry of the UN deadline for Iraq to withdraw from Kuwait, the lack of any progress in yesterday's talks brings the threat of war in the Gulf closer than ever in the five months since



Iraq invaded Kuwait.

Mr Baker emphasised that there remained time for Iraq to comply with the UN resolutions and said of any possible declaration of war: "The clock is ticking on, but the president has not taken that decision."

However, Mr Baker made a strong nod towards the desirability of continued diplomatic efforts to resolve the crisis and stressed in particular that Mr de Cuéllar could proceed with his own diplomatic initiative.

"The secretary-general of the United Nations could use his good offices in the remaining six or so days," he said. Mr Pérez de Cuéllar has already offered to visit Baghdad if it was considered likely to help find a diplomatic solu-

tion to the crisis.

Mr Baker also left open the possibility for a European initiative, saying: "We welcome any and all diplomatic initiatives to solve the crisis peacefully and diplomatically."

European diplomats had spent much of yesterday ensuring that some form of diplomatic safety-net would be available in the case of failure in Geneva and Mr Jacques Poos announced that Mr Aziz had agreed to hold talks in the next few days in Algiers.

Mr Aziz's acceptance of the talks preceded yesterday's discussions with Mr Baker and reversed his earlier decision to turn down last week's offer of talks from the EC.

The French government

stressed yesterday that it would use every diplomatic means available to it to avoid war in the Gulf.

At a press conference last night before the end of the US-Iraqi talks, President François Mitterrand said: "France will do everything possible for peace."

During the Gulf crisis the French government has repeatedly been rumoured to be hatching some secret peace initiative which would undercut the UN resolutions.

But yesterday Mr Mitterrand said: "France considers as an irreducible principle the fact that Kuwait must be evacuated, and on the other hand, that the deadline of the ultimatum, fixed for January 15, cannot be extended, under any pretext whatsoever."

Continued on Page 12

not be extended, under any pretext whatsoever.

The French government was in diplomatic contact with a large number of countries, said Mr Mitterrand, including Algeria, Morocco, the Soviet Union, Germany, Spain and Yugoslavia.

But he denied reports that there was a plan to send an emissary to Baghdad, since this would serve no useful purpose. "The right conditions must be present for such a move," he said, "and that is not my impression now."

He added, however, that "France will not back down from the [UN] texts which it has voted, and it will take part with its military forces until the deadline of the ultimatum, fixed for January 15, cannot be extended, under any pretext whatsoever."

Continued on Page 12

Oil prices rise as peace hopes fade

By Peter Marsh and Deborah Hargreaves in London

THE dollar and oil prices rose sharply last night on news that the US-Iraq talks in Geneva had failed to bring closer a resolution of the Gulf crisis.

The dollar report by Mr James Baker, the US secretary of state on the day's discussions with Mr Tariq Aziz, the Iraqi foreign minister, undercut earlier hopes on world financial markets for a peaceful solution.

In New York last night, the

dollar gained about 1½ pence in frantic trading as the US currency reverted to its traditional role as a "safe haven" in times of tension.

The dollar was quoted at DM1.5360 in mid-session trading in New York. Earlier in the day dealers had sold the currency amid optimism that the Geneva talks might spark an orderly withdrawal of Iraqi forces from Kuwait.

Oil prices also jumped after

Mr Baker's comments. North Sea Brent crude for future delivery gained \$6 to reach \$30 a barrel. During the optimism earlier in the day, the price had fallen by \$2.60 a barrel to \$27.40.

The less hopeful note at the close of the Geneva talks came too late to affect stock markets in Europe which had closed generally higher.

Bourses in Paris, Brussels and Frankfurt all closed

between 1.5 per cent and 3.2 per cent higher. In London, the FT-SE index finished the day at 2,138.9, up 29.0, while UK government gilt-edged bonds gained about 1 point.

Wall Street equity markets also bounced lower on the news of Mr Baker's comments. By early afternoon, the Dow Jones Industrial Average was 3.22 lower at 2,506.19, after having shown a 39 rise at mid-session.

Dresdner takes stake in Banesto industrial holding of Spain

By Tom Burns in Madrid and Katharine Campbell in Frankfurt

DRESDNER BANK, the second largest German bank, has acquired 5 per cent of Corporación Banesto, the industrial holding controlled by Banco Español de Crédito (Banco), one of Spain's biggest banks.

While Dresdner refused to confirm the transaction, banking sources said yesterday that it had paid Pta11.8bn (\$113.42m) for the equity, paying Ptas5.325 per share in a block acquisition from Banesto on the Madrid stockmarket on December 28. Banesto claims to represent 1 per cent of Spain's gross domestic product.

The private placement with Dresdner is in line with new strategy that was drawn up by Banesto after its decision last September to suspend a planned international flotation of 26 per cent of Corporación because of the Gulf crisis.

The decision to sell to Dresdner suggests a willingness by Banesto to cut its losses and strike deals with whoever is willing to bid a slight margin above Corporación's market price.

When Banesto announced

last October that it was open to private offers for the holding it set the market price of Ptas350 for Corporación shares as its benchmark. On that basis Banesto earns Pta170m from its sale.

Yesterday Corporación shares had fallen to Ptas4.950, from a price of Ptas7.500 and Ptas8.000 when Banesto was preparing Corporación's flotation.

Analysts were puzzled over Dresdner's motivation in forming a tie with the industrial holding group rather than Banesto bank.

The latter would have made more sense as a direct vehicle for expanding Dresdner's interests in Spain. However, one analyst said that Dresdner had been very keen to secure the regional lead management role (for Germany) in last year's Corporación share placement, but was understood to have lost to Deutsche Bank.

Spain comes well up the list of favoured destinations for Germany's banks expanding in Europe ahead of the single

market deadline. In knitting together a European network Dresdner has adopted a lower key approach than its more aggressive rival Deutsche Bank, which has made a string of acquisitions leaving France as the only significant gap.

Dresdner, by contrast, is well represented in France, particularly on the investment banking side, but has plenty of further ambitions elsewhere.

In Spain it has made no banking acquisitions to date, but has its own branches in Madrid and Barcelona, with a small fund management operation set up last year in Marbella.

Its co-operation agreement with Banque Nationale de Paris, which its chief executive Mr Wolfgang Röller has described as a cornerstone of his international strategy, has yet to bear significant fruit in western Europe after the failed bid launched for Yorkshire Bank in the UK a year ago, although the two banks have set up a joint venture in Buda-

Handshake temporarily breaks tension

By William Dufforce and Robert Mauthner in Geneva

IT TOOK a request from a photographer to break the tension at the start of the meeting in Geneva yesterday between Mr James Baker, US secretary of state, and Mr Tariq Aziz, Iraqi foreign minister.

Nine grim-faced delegates from each side were sitting face to face in complete silence at a bare rectangular table in a small oak-panelled room, the Salon des Nations, on the ground floor of the city's Intercontinental Hotel.

"Please shake hands," said the photographer. With a twitchy smile Mr Aziz half raised himself, Mr Baker lent over the table and, looking straight at the camera, they briefly grasped hands before settling back into their stony-faced ranks.

The two teams kept the world waiting for six hours as they remained locked in talks. After a morning and an afternoon session, interrupted by a short lunch break during which Mr Baker telephoned President George Bush, the ministers held a third session in the early evening.

The sternness of the occasion was signalled by some of the people flanking the ministers.

To emphasise the message that he had been expounding in London, Paris, Bonn and Milan - that Iraqi forces have to quit Kuwait unconditionally - Mr Baker was accompanied by Lt Gen Howard Graves, assistant to the US joint chiefs of staff.

US diplomats said he was there to demonstrate to the Iraqis the crushing military might that is ready to be thrown against them.

Mr Aziz was buttressed by the presence at his side of Mr Barzan al-Takriti, President Saddam Hussein's half-brother. Mr al-Takriti, whose reputation for toughness is second only to that of Mr Saddam, is his country's permanent representative in Geneva. His influence with the Iraqi president is said to be stronger than that of Mr Aziz.

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Turkish leader benefits from Nato alliance in Gulf crisis

A Nato move to deploy aircraft to Turkey, its only member bordering Iraq, represents an important gesture of support for President Turgut Ozal at a time of mounting political tension for the Turkish leader. Page 11

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MARKETS

STERLING New York lunchtime: \$1.5275 London: \$1.5265 (1.908) DM2.915 (2.92) FF8.8925 (8.8975) SF2.4525 (2.455) Y258.25 (260.0) £ index 94.0 (93.9)	GOLD New York: Comex Feb \$393.0 (392.3) London: \$373.75 (388.25) N SEA OIL (Argus) Brent Feb \$22.525 (25.65)	DOLLAR New York lunchtime: DM1.512 FF5.1315 SF1.2725 Y134.0 London: DM1.513 (1.515) FF5.135 (5.1925) SF1.2735 (1.2875) Y134.0 (136.4) £ index (62.0) Tokyo close: Y136.83	STOCK INDICES FT-SE 100: 2,138.9 (+29.0) FT Ordinary: 1,688.5 (+31.6) FT-A All-Share: 1,023.43 (+1.2%) New York: DJ Ind. Av. 2,506.19 (-3.22) S&P Comp 320.57 (+5.67) Tokyo: Nikkei 22,969.27 (-71.43) LONDON MONEY 3-month interbank: closing (133) Life long gilt future: Mar 90% (89.2)
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مكدامس الأصيل

MIDDLE EAST IN CRISIS

French search for peace may imperil UN strategy

By Ian Davidson in Paris

PRESIDENT François Mitterrand yesterday combined an undertaking that France would continue its diplomatic search for peace right up until the January 15 deadline, with a promise of uncompromising firmness on the absolute implementation of the United Nations Security Council resolutions by Iraq.

The second question is even more

important: where is the centre of gravity between France's diplomatic ambitions and its essential national interests? France would obviously rather retain its place as a western power and as a friend of the US, than jeopardise these relationships for the sake of a diplomatic coup in favour of the Arab world.

But the third question is crucial. In their attempt to find a way out of the Gulf crisis, an attempt which is founded both on good intentions and national vanity, are the French about to make a profound mistake, to overstep the mark, and to give away the chance of restoring the independence of Kuwait?

Until the crisis has been played out to its conclusion, no-one can answer these questions for sure. But it is obvious that France and its European

partners are, by their anxiety to negotiate, running the risk of jeopardising the carefully constructed strategy of the United Nations coalition.

In principle, the French government agrees absolutely with the US administration that there can be no negotiation over whether Iraq should withdraw from Kuwait. President François Mitterrand and his ministers have repeatedly insisted that Iraq must withdraw completely and without conditions from Kuwait.

Over the months, France has gradually moved closer to the US position, under the UN umbrella, both over the necessity that Iraq should withdraw from Kuwait, and more recently over the threat to use force.

The two governments nevertheless diverge over the question of an international Middle East conference. In

September, in a speech to the UN General Assembly, Mr Mitterrand argued that, if Iraq were to withdraw from Kuwait, everything would become possible, including the holding of one or more international conferences, to settle the long-standing problems of the Middle East.

France has advocated an international conference since 1983. The US, on the other hand, is manifestly unenthusiastic about the idea.

France has adopted a relatively pro-Arab posture since the 1967 Six-Day Arab-Israeli War. It felt doubly sensitive about the Iraqi invasion of Kuwait, since Paris had cultivated a friendship with Iraq from the 1970s and had supplied many of the weapons which have made Iraq one of the best-armed countries in the region.

The dilemma facing Mr Mitterrand now is whether he can offer any additional inducement to Iraq, without jeopardising the entire UN enterprise. The danger is that he could be lured by Iraqi President Saddam Hussein into debating about the participants, the mandate and the conclusions of an international conference.

In reality, of course, France could not deliver answers to any of these questions. No conference would be worth holding if it did not have the participation of all the permanent members of the UN Security Council, starting with the US; and no conference could be pre-negotiated. But there is a clear risk that such parleys between Paris and Baghdad could be used by Iraq for purposes of indefinite procrastination, and for delaying indefinitely the moment of withdrawal from Kuwait.

JANUARY 1991

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JAN 10 1991

Baker due in Ankara

House of Representatives begins debate on military action

Major returns to London after Cairo talks

Western oil stocks reach nine-year high

By Deborah Hargreaves

WESTERN OIL stocks are at their highest level for nine years as the world sources up to 45m barrels a day in the Gulf according to the Paris-based International Energy Agency (IEA) in its monthly oil market report yesterday.

At the same time, producing countries are stockpiling oil close to consumption levels in case output is interrupted by a conflict.

Crude oil and product stocks are at 460m tonnes, equivalent to 96 days consumption by the OECD. In addition, Saudi Arabia, Iran and Venezuela have moved some 50m barrels of oil outside the Middle East war zone, holding it in floating storage, in transit or on land close to end markets, particularly in Europe.

These stocks which have been built up in addition to the 50m barrels regularly held by these countries as stockpiles, are seen as a cushion against any supply interruption by hostilities in the Gulf.

At the same time, the IEA points to sluggish oil demand and estimates that oil consumption by OECD countries will reach 36.5m barrels a day in the first quarter, unchanged from the same period a year ago. This follows a 3 per cent drop in usage towards the end of last year, when consumption fell to 36.1m b/d.

Oil supplies remain strong, and in December reached their highest level in eight months, of 45.2m b/d. Production by the Organisation of Petroleum Exporting Countries reached 23.5m b/d in December as producers such as Venezuela and Saudi Arabia maintained its high level of production at 8.2m b/d.

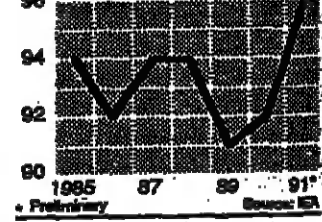
The speed and extent of the response from Opec producers since August has surpassed all earlier expectations, the agency says.

Supply and demand in the oil market are currently almost exactly in balance and large stocks of oil will provide a cushion in the event of any

disruption in output. The IEA estimates that if the current stock levels are maintained throughout the first three months of this year - a time when companies are traditionally selling stock - the level of crude needed from Opec to meet projected demand would be 23.5m b/d, close to the level achieved in December.

However, there is considerable potential to reduce the current high level of stocks both ashore and afloat. If there were to be a disruption in supplies from the Arabian Gulf, the magnitude of the disruption that could be anticipated while maintaining forecast levels of consumption would be highly sensitive to the reaction of both stockholders and consumers.

The IEA estimates that consumption of oil will fall in the second quarter to 35.5m b/d. Falling below the level of consumption as the US and Europe have moved into recession. North American consumption fell by 4 per cent to 19m b/d in the last three months of 1990 and is expected to drop further to 18.5m b/d in the first quarter. European usage also declined by 4 per cent to 10.5m b/d in the last quarter, but is estimated to rise to 12.5m b/d in the current three months.



Iraq 'accepts' EC offer to hold talks in Algiers

By David Buchan in Brussels

IRAQ has apparently accepted an offer by the European Community to hold talks on the Gulf crisis in Algiers, French President François Mitterrand said yesterday.

Europe's fresh offer of talks, this time on neutral ground, came amid rising concern in Brussels that a separate French diplomatic initiative could shatter the Twelve's common stance.

The concern followed remarks from a French government spokesman that Paris would use all its diplomatic resources to try to avert war.

Mr Jacques Poos, foreign minister of Luxembourg, which holds the EC presidency, met Mr Sid Ahmed Ghazali, his

the two countries most reluctant about the original invitation to Iraq, are understood to endorse the renewed European initiative.

The Twelve would be represented at the talks by Mr Poos, together with the foreign ministers of Italy (the last EC president) and the Netherlands (the next president).

However, this consensus could come unstuck if France - as Mr Roland Dumas, its foreign minister, hinted yesterday - was to strike out on its own diplomatically before the January 15 United Nations deadline.

One official said yesterday that if just as the Twelve were formally negotiating common foreign policy mechanisms, "one member state were to take freedom of manoeuvre back, this would create a new situation, and dissent among others".

For the moment, however, diplomats in Brussels report consensus on two points:

● The military threat against Iraq should be suspended if Baghdad starts to pull its troops out of Kuwait within the next six days. Officials recognised that at this stage, even with the best will in the world, Iraq could not get all its soldiers out of Kuwait by next Tuesday.

● The EC, if not the US, should make clear the "objective" need to promote a settlement of the Palestinian issue. This is long overdue, say EC diplomats, and has nothing to do, strictly speaking, with President Saddam Hussein.

Iraq indeed would probably not even be invited to attend a conference on the Palestinian issue of the kind endorsed by the EC. President Mitterrand made this clear by talking of the need for two conferences (one on the Gulf and the other on the Arab-Israeli dispute) during his New Year address to the nation.

However, as one EC official put it, if stating the Community's concern about the Middle East peace "can help Saddam Hussein behave better on other issues [Kuwait], why not do it?"

Algeria offers valuable experience as mediator

By Francis Gihies

THE ALGERIAN government, now emerging as a key interlocutor in European and French mediation in the Gulf, is no stranger to the often violent complexities of Middle East politics.

Though they have never admitted so much in public, the Algerians know it was Iraq that shot down the aircraft carrying their then minister of foreign affairs, Mr Mohamed Benyahia, as it flew from Baghdad to Tehran April 1992.

The "accident" claimed the lives of one of the most talented group of diplomats any third world country could line up. Mr Benyahia and his team of advisers were busy shuttling between the two capitals in one of many vain attempts to negotiate a ceasefire between the two Middle East countries.

The government nevertheless refused to allow the episode to interfere with a realistic appraisal of events, alongside a determination to remain neutral in the region.

In December 1975, the late President Houari Boumedienne agreed to admit into Algeria the gang led by Ilich Ramirez Sanchez - the Venezuelan usually known by his nom de guerre of Carlos Marti - and the ministerial hostages seized at a conference of the Organisation of Petroleum Exporting Countries.

The skilful negotiations undertaken by Mr Belaid Abdesselam, the redoubtable Algerian minister of energy, and Mr Abdelaziz Bouteflika saved the lives of all, not least of Sheikh Ahmed Zaki Yamani (then Saudi Arabia's oil minister), who was Carlos Marti's main target.



Ghazali: diplomatic test

Six years later Algerian diplomats pulled off one of the more remarkable feats of diplomacy when they secured the release of the US diplomats held hostage in Tehran.

Algeria has established its credentials from the perspective of all but Iraq - by being quick to condemn the invasion of Kuwait. The government shares the west's insistence that an Iraqi withdrawal from Kuwait is a precondition to anything that might follow.

But the skilful diplomacy of the Algerians, led by Mr Sid Ahmed Ghazali, foreign minister since September 1989, will be tested to the limit. Algeria is likely to tell the EC mission that inter-Arab diplomacy should then be given a chance, because only Arab intervention can help the Iraqi leader escape from his predicament.

Most Arabs, they say, would rather die than lose face, and western negotiators cannot fully appreciate the importance of this psychological factor.



Palestinian terrorist leader Sheikh Asad al-Tamimi urging a jihad or holy war at an Islamic conference in Baghdad yesterday.

Moslem militants want Saddam as Caliph

By Tony Walker in Baghdad

A MILITANT Islamic leader yesterday called for President Saddam Hussein to be declared the Caliph or supreme ruler in the Arab world, recalling the high point of Arab conquest in the 8th century.

Sheikh Asad al-Tamimi, the emir or leader of the emergent Islamic jihad in Jordan, told an Islamic conference which opened yesterday in Baghdad that Mr Saddam's return to Islam had "marked a high point in the Islamic awakening".

The radical cleric, whose followers have been conducting suicide missions against Israeli soldiers in the West Bank, emphasised some fellow Islamists with his

call for the restoration of the caliphate under Mr Saddam. Mr Leith Shbeilat, an independent Islamist member of the Jordanian parliament, described talk of a return to the caliphate, established immediately after the death of the prophet Mohammed in 632AD, as utopian.

"We are not qualified for that ideal. We are too far from that ideal," he declared. Sheikh Tamimi's eccentric call reflects, nevertheless, moods and passions abroad in the Arab world, and is also a measure of Mr Saddam's success in persuading some Arab militants that his recent embrace of Islamic slogans is sincere.

The head of a hitherto determinedly secular Ba'ath party apparatus, the Iraqi leader has repeatedly pitched his appeal for Arab support in religious terms, railing against Western "infidels".

Sheikh Tamimi was a strong supporter of Iraq during the Gulf war. The three-day conference, attended by about 1,000 delegates from across the Islamic world, was also addressed by Taha Yassin Ramadan, Iraq's first deputy prime minister. Delivering a message from Mr Saddam, he accused the US alliance of seeking to "plunder Arab riches and destroy Arab culture and heritage".

Pullout not enough, says Israel

By Hugh Carnegie in Jerusalem

ISRAEL again told of its worries about any diplomatic resolution of the Gulf crisis yesterday, saying that an Iraqi withdrawal from Kuwait would not in itself end the dangers to the region posed by Baghdad.

"We cannot talk about ending the crisis by an announcement that [Iraq] is withdrawing or even by actual withdrawal without saying what will happen the day after or how to create Middle East stability and exterminate the danger of [Iraqi President] Saddam Hussein," Mr David Levy, the foreign minister, said in a radio interview.

Mr Moshe Arens, the defence minister, denied a state radio report that the armed forces had been placed on a heightened state of alert before the US-Israeli talks in Geneva and next week's UN deadline for Iraq to withdraw from Kuwait.

However, he said the defence forces were ready for any eventuality. The authorities are worried that Iraq might launch a missile attack on Israel if peace efforts fail.

Responding to pressure on Israel to moderate any response to an Iraqi attack to prevent any split within the Western-Arab alliance against Iraq, Mr Levy said: "Israel will not create a precedent by which it is attacked, its citizens are hit, but it restrains

itself in order to maintain this or that coalition."

Mr Ariel Sharon, the housing minister and former defence chief, added in an interview with a French newspaper: "My message to the Arabs and to Saddam Hussein is: Do not attack Israel because Israel will reply immediately in the hardest possible manner."

Mr Yitzhak Shamir, the prime minister, said everybody would be pleased by a peaceful outcome.

However, his remark disguised real concern in Israel, expressed by Mr Levy, that President Saddam might survive with his regime and influence intact.

NEWS IN BRIEF

Baghdad pours more troops into Kuwait

IRAQ is estimated to have reinforced its troop strength concentrated in and around Kuwait by some 60,000 in the past fortnight, increasing its total to 590,000, writes David White, Defence Correspondent.

Iraqi tanks in the region are thought to have been bolstered by a further 200 to 4,200, representing more than three-quarters of the country's total force. The number of artillery pieces has risen to some 3,000 from under 2,500, with about 2,500 armoured personnel carriers. Experts believe efforts for further reinforcements would severely stretch the Iraqi army's capabilities.

The increase has taken place principally inside Kuwait with a strengthening of the infantry line stretched behind the border with Saudi Arabia and along the coast, and of armoured reserves deployed behind them.

Kaunda on peace mission

President Kenneth Kaunda of Zambia was due to fly to Baghdad late last night to hold talks with President Saddam Hussein, according to senior aides, writes Mike Hall in Lusaka. The two men have worked together in the Non-Aligned Movement, a grouping of mainly third world nations.

Before his departure Mr Kaunda met Mr Herman Cohen, US assistant secretary of state for African affairs.

Palestinian may go free

Belgium yesterday signalled its readiness to free a Palestinian jailed for life for a grenade attack on Jewish schoolchildren in Antwerp in 1980 in return for four Belgian hostages which the Fatah Revolutionary Council said earlier this week were being released, writes David Buchanan in Brussels.

The Foreign Ministry merely confirmed that the government had agreed within itself - but "not with any third party" - on a possible swap between Mr Said Nasser, who is held at Louvain, and the Houtekins family, kidnapped from a yacht in 1987.

A ministry official added that Belgium was continuing its contacts in order to secure the release of the Houtekins family. These contacts have taken the ministry's political director several times in recent months to Lebanon, and it is also considered significant that Belgium is about to sign an economic co-operation accord with Libya.

Insurance rates set to rise

Insurance rates for cargo being transported through the Gulf region are likely to rise further following yesterday's decision by London underwriters to move war-risk premiums for air and marine cargo to Israel on to a "held-covered" basis, writes David Waller. Held-covered means some insurers will not quote rates at all and cover is negotiated between insurer and shipowner on a case-by-case basis, rather than being decided with reference to a table of indicative rates set by the London-based War Risks Rating Committee. Until yesterday, held-covered applied only to marine cargo going to Israel via ports in Jordan, Lebanon or Syria.

First pick for US military

President George Bush yesterday issued an executive order giving the US military first call on food, energy, transport and other essentials in the event of war in the Gulf. Reuter reports from Washington. The order, which has the force of law, said: "To achieve prompt delivery of articles, products and materials to meet national security requirements, the government may place orders and require priority performance of these orders."

Jordan shuts border to refugees

By Lamia Andoni in Amman

JORDAN yesterday closed its border with Iraq to prevent refugees from Kuwait and Iraq flooding into the country before a possible war.

Jordan expects more than 1m evacuees to seek passage across its borders in the next two weeks and fears it will not be able to cope with the stranded masses.

Crown Prince Hassan called for international aid earlier this week to help cope with the expected wave of refugees.

More than 1.6m refugees passed through Jordan immediately after Iraq's invasion of Kuwait, seeking food, transport, food and water supplies to the limit.

Mr Mudar Badran, the prime minister, also warned yesterday that Jordan would seek military aid from Iraq, Syria and Egypt if attacked by Israel. Jordanian officials said that Iraq as well as Syria, which is part of the US alliance against Baghdad, has promised to come to Jordan's help against a possible Israeli invasion.

Mr Badran predicted that the US alliance would crumble in the event of an Israeli military intervention.

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EUROPEAN NEWS

Moscow report tells how thousands of tanks avoided CFE count

By Quentin Peel in Moscow

WESTERN CLAIMS that the Soviet Union moved thousands of tanks, armoured cars and artillery pieces behind the Ural mountains last year, to escape counting in east-west arms cuts, have been given new credibility by the country's leading conservative newspaper.

Not only did the Soviet military carry out the massive operation, but it severely disrupted collection of the country's record harvest last summer by commandeering thousands of railway wagons, according to an interview published by *Sovetskaya Rossiya*, the Russian Communist

party newspaper. The extraordinary claim was made by Mr V. Litov, cited as an economist and leading critic of the CFE (conventional armed forces in Europe) disarmament treaty signed in Paris last December.

He described the military exercise, carried out "in the shortest possible time", as an essential operation to protect the Soviet military from the "miscalculations of our diplomacy", and called on the Soviet parliament to refuse to ratify the treaty.

At the same time he confirmed the deep division between the Soviet

military and the Ministry of Foreign Affairs, headed by Mr Eduard Shevardnadze, over the whole disarmament debate.

Mr Litov said the huge cuts in Soviet tanks required by the treaty - from 48,000 in Europe to just 13,000 in three years' time - amounted to virtual unilateral disarmament. Given the collapse of the Warsaw Pact, he said, there was now a big imbalance between Nato forces and those of the Soviet Union alone.

"This sharp reduction, unprecedented in history, is a very difficult and catastrophic process for our

armed forces," he said. "It was caused by the desire of the Foreign Ministry, as soon as possible, and before the Paris summit (last November) to prepare this [CFE] treaty. A colossal amount of military equipment had to be destroyed, with corresponding tremendous expenditures which our economy simply could not stand."

"This is why the military, trying somehow to make up for the miscalculation of our diplomacy, organised this removal behind the Urals of thousands of tanks, artillery and other equipment." Western esti-

mates suggest that 20,894 Soviet tanks, some 25,000 artillery pieces, and 15,500 armoured vehicles, vanished from eastern Europe in the months before the treaty signing.

Mr Litov's claims fit with other reports that Mr Shevardnadze's dramatic resignation before Christmas was precipitated by a fundamental clash with the Soviet military, and the failure of President Mikhail Gorbachev to support him.

Western diplomats in Moscow say that Soviet Foreign Ministry officials make no secret of their dismay at the military attitude to the CFE

treaty. That includes not only the apparent removal of hardware behind the Urals, and therefore out of the Atlantic-to-the-Urals counting zone, but also to the last-minute reclassification of two divisions as "naval infantry", just days before the treaty was signed.

The issue is now seen as a threat to the US-Soviet summit in February, with US officials suggesting that a strategic arms limitation pact cannot be finalised without clarification on CFE. Moscow argues that there should be no linkage, and there is no reason to delay the summit.

Airbus makes first operating profit

By Paul Betts in Paris

AIRBUS INDUSTRIE, the four-nation European aircraft consortium, made its first operating surplus last year of about \$120m and expects to do better in 1991.

The consortium, which includes Aerospatiale of France, MBB of Germany, British Aerospace and Casa of Spain, said yesterday it had delivered \$4.6bn worth of aircraft last year and expected to see turnover rise to nearly \$7bn this year.

However, Mr Jean Pierson, the chief executive, warned yesterday that the industry faced a "turbulent and uncertain period" because of airlines' financial problems, a credit squeeze on aircraft financing, the Gulf crisis and soaring jet fuel prices.

Although Airbus has moved into the black, its four partners face increasing financial pressures because of the low US dollar exchange rate. The consortium itself is unaffected because its accounts, payments and sales proceeds are in dollars.

It booked 404 new aircraft orders worth \$27bn last year, and expects to win about 100 this year.

Airbus is particularly concerned about the turmoil in the US airline industry and the impact of the Gulf crisis on its Middle East airline customers. It believes several of its customers may decide to defer or cancel orders in the coming months.

Egypt Air and Royal Jordanian Airlines are committed to about 10 aircraft this year, and Gulf Air is due to take delivery of a large number next year.

In the US, Airbus is reviewing short-term lease agreements with troubled Pan American for 21 Airbus wide-body aircraft. Other financially strapped US airlines like TWA and Continental also have large numbers of Airbus aircraft on order.

Airbus continues to expect strong long-term demand for large aircraft, however. Mr Pierson said it would propose this year a stretched version of its twin-engine wide-body A330. It is also working on plans to expand its A320 long-range four-engine aircraft.

He confirmed that the consortium was studying development of a 600-700 seater to compete with Boeing's jumbo.

Airbus also continues to be interested in developing a 100-120 seat version of its commercially successful A320 150 seat jet, Mr Pierson said. It is at present restricted to building aircraft of 150 seats or more. But he suggested the Airbus partners might need to consider lowering the limit. However, the priority remained in the larger aircraft range where the returns were higher.

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Bonn fails to reach budget deal with states

By David Marsh in Bonn

THE BONN government and the 16 federal German states yesterday failed to agree on a new system of financing regional budgets, leaving in disarray efforts to fund the costs of economic restructuring in eastern Germany.

Yesterday's lack of progress on breaking the financial impasse leaves serious doubts whether the east and west German states (Länder) may after all have to resort to higher borrowing to meet increasing calls on their resources.

This would seriously endanger Bonn's plan to keep overall public sector borrowing down to DM140bn (£48.7bn) this year to avoid a damaging rise in interest rates. Of this projected deficit, DM70bn represents the shortfall in the central government's accounts. No less than DM25bn reflects the anticipated budget deficits of the cash-strapped eastern states and municipalities.

The states and the central government now face further negotiations in the next few weeks on a method of channeling tax revenues eastwards to help reconstruction.

Mr Gerhard Schröder, Social Democrat (SPD) prime minister of the west German state of Lower Saxony, said that the west German regions were firmly resolved to help the poorer states in the east. The question was simply how to accomplish this.

Contracting disagreement would add up to a grave setback for hopes of adapting the west German federal system to the challenge of unification.

At yesterday's meeting between Chancellor Helmut Kohl and the prime ministers of the 16 states, Mr Theo Wiegand, the Finance Minister, flatly rejected the suggestion of higher borrowing by the German Unity Fund (GUF).

A DM6bn increase in funding this year by the GUF - the public sector financing vehicle set up to channel funds into east Germany - was suggested by the opposition SPD.

This watered down the week-end proposal of the five newly-constituted east German Länder for a doubling of GUF, intended up to now to raise DM85bn over 4 years.

The government, backed by the Christian Democrat (CDU)-governed states, yesterday put forward alternative proposals to increase east German state revenues by DM14.5bn over four years. This would be achieved by changing the share-out of value added tax receipts among the federal states.

Mr Johannes Rau, the SPD Prime Minister of North Rhine-Westphalia, retorted that Bonn's VAT plan would lead eventually to higher public sector borrowing anyway because it would take away revenues from the western Länder which would have to be raised on the capital markets.

The German government agreed with the 16 states not to limit the number of Soviet Jews allowed to settle in the country, Reuters adds.

Under its plan, which has some backing from Croatia and the republics of Bosnia-Herzegovina, Macedonia and the province of Kosovo, taxes would be levied by the individual republics, the army would be financed from the federal budget, and certain areas of foreign policy would be devolved to the republics.

Mr Franjo Tudjman, Croatia's president, will today ask the state presidency - a body comprising the six republican presidents - to accept its declaration of sovereignty.

In the other camp, Serbia, Montenegro and the province of Vojvodina staunchly oppose the confederal model.

Mr Milosevic has been at the forefront in advocating retention of the federal structures, despite the inefficient way in which decisions are made and power is distributed.

At the root of Serbia's insistence is its deep-seated fear that a confederal Yugoslavia would dilute its dominance of the federation.

The debate on the future organisation of Yugoslavia takes place against the background of Mr Markovic's inability to push through a reform of the fiscal system which would have been based on the federal level: the deteriorating state of the economy, exacerbated by Serbia's attempts to acquire secret loans, and growing ethnic tensions between the 800,000 Serb minority in Croatia and Croats.

The Yugoslav state presidency yesterday ordered civilians to turn in all weapons, saying the country was threatened by armed rebellion and inter-ethnic violence, Reuters reports from Belgrade.

It said an unspecified quantity of arms had been smuggled into parts of the country. "Illegal paramilitary armed units are thus being formed which by their existence and planned terrorist activities represent a direct threat of armed rebellion and inter-ethnic conflicts," it said.

The statement gave no details, but it was clearly alluding to the northwestern republics of Slovenia and Croatia which have been rumoured to have been secretly stockpiling foreign weapons. Civilians were ordered to turn in all weapons to the nearest army unit within 10 days and the statement warned of legal action against those failing to comply.

Leaders try to hold Yugoslavia together

By Judy Dempsey in London

THE PRESIDENTS of Yugoslavia's six republics will today try to find a common solution to the country's serious political and economic problems in an attempt to prevent the federation splitting apart.

Hopes of reaching a consensus appear slim, however, following weeks of bitter exchanges between Serbia and Croatia and moves by the former to undermine prime minister Ante Markovic's economic reforms.

Mr Slobodan Milosevic, Communist president of Serbia, has tried secretly to acquire an 18bn dinar (\$500m) bank loan aimed at increasing pensions and subsidising loss-making industries.

The deal was leaked to the prime minister, prompting a government statement earlier this week that the loan represented more than half the new money the federal government planned to make available to all Yugoslav banks this year.

The way in which the loan was acquired has highlighted the fundamental differences between Mr Milosevic and Mr Markovic on how to restructure the economy, banking and the political system.

These are reflected in the other republics which are now loosely divided into two camps.

The first group includes Slovenia, Croatia and Bosnia-Herzegovina. They support Mr Markovic's attempts to reform the economy, but oppose some of his remedies.

For instance, the government of Slovenia, which last month overwhelmingly voted for secession from the Yugoslav federation, has insisted that the country be organised on a confederal model in which the republics would have more autonomy.

Under its plan, which has some backing from Croatia and the republics of Bosnia-Herzegovina, Macedonia and the province of Kosovo, taxes would be levied by the individual republics, the army would be financed from the federal budget, and certain areas of foreign policy would be devolved to the republics.

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A Berlin junk yard is the end of the road for hundreds of east German Trabant cars which citizens of the former Communist state once waited years for the privilege of owning

Slovakia will defy Prague's arms exports ban to protect defence jobs

By Leslie Collett in Bratislava

THE independence-minded republic of Slovakia will defy a Czechoslovak government ban on the production and export of heavy weapons which threatened nearly 70,000 Slovak jobs, the republic's prime minister said yesterday.

The decision is a fresh challenge to Mr Vaclav Havel, the Czechoslovak president, who personally inspired last year's decision by Prague to wind down arms production and cease exports immediately on moral grounds. Czechoslovakia was the Warsaw Pact's second largest arms exporter and, until last year, supplied tanks to Iraq and trained Iraqi pilots.

Mr Vladimir Meciar, the Slovak prime minister, said the government's decision on Tuesday evening hinged on demand in the international arms market.

"It is our decision and we are not asking the federal government for approval," he said. Approval was not needed after January 1, under a new law redistributing powers between the Czech and Slovak republics and the federal government, he said.

Slovak leaders only last month threatened to secede from the Czechoslovak federation during a crisis in negotiations on the division of powers. They took offence when Mr Havel suggested that he would have to increase the powers of the presidency in order to deal with a secession threat.

Mr Meciar, who ironically is a member of the movement founded by Mr Havel, Civic Forum, emphasised that weapons made in Slovakia, the heavy arms forge of the nation, would not be sold in "areas of conflict".

The indications are, however, that this may be interpreted liberally. Mr Jiri Dienstbier, the Czechoslovak foreign minister, on his return from a visit to Saudi Arabia and the Gulf Emirates last week reported interest in buying Czechoslovak weaponry.

Mr Peter Milik, a senior official in the new Slovak Ministry of International Relations, agreed that arms exports by Slovakia would conform with Czechoslovak foreign policy.

Slovakia could sell weapons to Saudi Arabia and other nations in the Middle East and North Africa but would continue banning exports to Iraq, Libya and terrorist groups, he said.

Under the federal government's original plan, arms production in Slovakia was to be cut by the end of next year to 7 per cent of its peak level of 1985.

Slovak officials challenged this target, warning of the social implications of having nearly 10 per cent of the Slovak labour force - including its highest-paid workers and technicians - thrown out of work in the defence industry.

Mr Meciar said the federal government's decision to run down Slovak arms output swiftly had led to "very unfavourable consequences". New civilian products were proving difficult to find for the sprawling tank factory at Martin and other Slovak arms plants whose purpose-built machinery cannot be converted to civilian production.

No official figures are available on the current level of arms production in Slovakia or the Czech republic, which produces machine guns, rifles and other light arms.

Albania's first independent force for 46 years, split out its stance on Tuesday at a two-hour meeting with Alija, who has insisted the vote should proceed as scheduled on February 10.

Mr Polo said their first meeting had brought no concrete results but both sides had agreed to reflect on their positions and possibly meet again.

The Democratic Party had not formally decided on a boycott but such a move was "a very great probability" unless Alija changed his mind about a postponement, he said.

Fifteen Soviet soldiers were killed when a tank exploded at a Soviet military base in northwestern Czechoslovakia on Wednesday, the state news agency CTK reported, Reuters reports from Prague.

It quoted Soviet army sources as saying a technical failure caused ammunition in the tank to explode. A fire followed. The accident occurred at the Bohosudov base outside Teplice near the German border.

far the largest of several aid campaigns, said several people had given more than DM1m (\$250m) each since November.

Germans, thankful to the Soviet president Mikhail Gorbachev for agreeing to German unification, have responded generously to calls to send food to help overcome the shortages caused mainly by a breakdown in the Communist distribution system.

However, aid organisations have complained that traditional generosity to charities in the run-up to Christmas had been diverted to the Soviet campaign at the expense of aid recipients in the Third World.

Major relief agencies said last week that Africa's famine stricken, especially Ethiopia, Sudan, Mozambique, Angola and Liberia, were suffering as the world diverted aid to eastern Europe.

The 38-year-old maths teacher died after being struck on the head by a desk in a clash between pupils.

The new minister, Mr George Souflias, formerly in charge of the economy, faces a hard task persuading teenagers to re-examine classes after a month-long sit-in at hundreds of secondary schools around the country.

Many pupils spent Christmas camping in their schools in protest at new measures tightening discipline in state education. The sit-ins ended even though Mr Kontoyiannopoulos postponed his plans to reduce the grades of students for unexplained absences from class and disciplinary offences.

Germans have donated more than DM12m (\$4m) to help the Soviet Union through a winter of food shortages, campaign organisers said on Wednesday, Reuters reports from Bonn.

German television, which along with the magazine Stern launched "Help Russia", by

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Brussels investigates French betting concern

By David Buchanan in Brussels

THE European Commission has launched an investigation into possible unfair state aid by the French government to Pari Mutuel Urbain (PMU), the country's betting monopoly.

The Commission's action comes in response to a complaint by Ladbrokes, the British bookmaking concern, that PMU is getting unfair tax breaks at a time when the French organisation is trying to enter the Belgian and German betting markets.

The Commission investigation is not directly targeted on PMU's monopoly in France, though Ladbrokes also has been complained to Brussels on this score.

The EC probe is focused more on the potential distortion of cross-border competition if PMU extends its operations abroad, when it has benefited from exemption from French corporation tax and, in recent years, from tax write-offs and subsidies from the French government.

Ladbrokes is hoping that the Commission will outlaw future state help to PMU and possibly demand, as it has done in many cases of illegal state aid, recovery of past payments.

According to a French court of auditors report in 1987, PMU obtained FF1.3bn (\$250m) from the French government between 1982 and 1986.

PMU's monopoly has been under indirect attack from Ladbrokes whose Belgian betting shops take bets on French horse races. The British betting company has complained to the Commission that PMU is selling its satellite horse racing service to one of Ladbrokes' competitors in Germany, but refusing to sell it to the British company.

The Commission has made the curbing of trade-distorting state aids an increasing feature of its competition policy.

Several recent big cases have concerned the French government, which last year conducted a protracted battle with Brussels over aid to the state-owned Renault car company.

distribution of the share vouchers would probably be handled by a foreign company.

His ministry intended to go ahead with selling small state-owned enterprises and organising a regional structure which would enable the process to be decentralised.

Mr Lewandowski said his priority would be the privatisation of some 5,000 small companies which promised quick profits. Sales of the larger companies would continue, but greater emphasis would be placed on finding individual domestic and foreign investors rather than seeking private savings. Mr Lewandowski, 39, is the leader of the Liberal Democratic party, a small but influential free-market group which has four representatives in the proposed government including new prime minister Jan Krzysztofielecki.

Mr Lewandowski has for years been an economic adviser to Mr Lech Walesa, the former Solidarity leader who became president of Poland last month.

However, the government looks likely to be left with unsold shares in Tonsell, an electronics factory, Prochlik, a clothing manufacturer, and the Krosno glassworks.

Mr Lewandowski, whose candidacy is to be approved tomorrow along with the rest of the government, said that

EUROPE IN BRIEF

Greece's education minister, Mr Vassiliou Koutyriannopoulos, was forced to resign yesterday after a teacher was killed in a riot at a high school in the western city of Patras, writes Kerin Hope in Athens.

The 38-year-old maths teacher died after being struck on the head by a desk in a clash between pupils.

The new minister, Mr George Souflias, formerly in charge of the economy, faces a hard task persuading teenagers to re-examine classes after a month-long sit-in at hundreds of secondary schools around the country.

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Fog closes the Bosphorus

Thick fog closed the Bosphorus waterway to shipping on Wednesday and hit air and commuter traffic in Istanbul, Turkey's commercial capital, Reuters reports from Istanbul.

Ankara's international Esenboga airport was also closed to all landings and all but two flights out were delayed, airport officials said.

Maritime officials said the 19-mile Bosphorus strait separating Asia and Europe was closed to all shipping from 5am. Up to 100 ships a day, mainly oil tankers and cargo vessels, cross the waterway daily.

Rush-hour ferry services were halted in Istanbul, a city of eight million people.

Travellers were stranded at Istanbul's Ataturk airport when fog cut visibility below 100 metres, airport officials said.

Prices of basic foodstuffs and heating in Bulgaria are set to soar by between 300 and 1,500 per cent later this month, Reuters reports from Sofia quoting the Socialist Party newspaper *Donna*. Public transport fares are also set to soar.

Australian companies are largely enthusiastic about the European Community's single market programme but many fear an increase in protectionism, according to a study released by the foreign

affairs department yesterday, writes Kevin Brown in Sydney.

The survey, prepared by the Australian High Commission in London, found that more than 80 per cent of 104 Australian companies which responded were planning to invest in the EC in the next five years, mostly using Britain as a base.

About 60 per cent expected to benefit from the removal of frontier controls, harmonisation of technical standards, liberalisation of transport and progress towards monetary union. However, few saw benefits in liberalised public procurement rules or the removal of national quotas.

Some were concerned about the prospect of increased rights for workers.

The greatest worry was the possibility of increased protectionism directed against non-EC companies, but the survey concluded that the overall mood had become more confident since an earlier study in 1987.

Dr Neal Blewett, Trade Negotiations Minister, said many Australian companies appeared not to understand the EC decision-making process and were unaware of how to lobby for their interests.

"Other governments and companies can and do influence EC decision-making at every stage of the legislative process, and Australian companies need to become more skilled in this area," Dr Blewett said.

Soviet-Israeli relations warm

The president of the World Jewish Congress met President Mikhail Gorbachev on Tuesday in a sign of a further warming of relations between the Soviet Union and Israel, Reuters reports from Moscow.

Mr Edgar Bronfman met Mr Gorbachev for 50 minutes and said he discussed the Arab-Israeli conflict, Soviet Jewish emigration to Israel and a number of other issues.

It was the first meeting between a Soviet president and the leader of a Jewish organisation since the Kremlin severed diplomatic relations with Israel in the 1967 Middle East war.

The visit came a week after Israel opened a consulate in Moscow, almost 24 years after the Soviet Union broke off

Bulgarian food prices rise

Prices of basic foodstuffs and heating in Bulgaria are set to soar by between 300 and 1,500 per cent later this month, Reuters reports from Sofia quoting the Socialist Party newspaper *Donna*. Public transport fares are also set to soar.

Australian companies are largely enthusiastic about the European Community's single market programme but many fear an increase in protectionism, according to a study released by the foreign

AMERICAN NEWS

Gradualist Greenspan plays a cool hand on rates

MR Alan Greenspan, chairman of the Federal Reserve, has always favoured a gradualist approach to monetary policy. This week he excelled himself by signalling a quarter-point cut in the federal funds rate, to 6 1/4 per cent, so obliquely that many analysts were unsure an easing had occurred.

On Tuesday the Fed failed to drain reserves from the markets when the Fed funds rate - the rate banks charge on loans to each other - dropped below 7 per cent, the central bank's previous target for this key interest rate.

But the move was hard to interpret as both the Fed funds rate and the level of bank reserves have been exceptionally volatile in recent weeks.

The volatility - which has driven the rate as low as 1 per cent and, briefly, as high as 100 per cent - reflects both normal year-end adjust-

ments to reserves by banks and distortions caused by the phasing in of new, lower reserve requirements intended to bolster bank profitability and help avert a "credit crunch".

The Fed's policy of making incremental changes in interest rates contrasts strongly with the tactics of other central banks. The Bank of England, for example, frequently signals full-point reductions in short-term rates, the most recent occurring when sterling joined the European exchange rate mechanism.

The Fed makes analysts' lives difficult by refusing to comment on its market operations. Changes in the Fed funds rate have to be inferred. This sometimes leads to errors: in November 1989, for example, markets wrongly assumed the Fed had sanctioned an easing.

The latest easing of the Fed funds rate is the sixth cut since last July, when the rate stood at 8 1/4 per cent.

and probably the second leg of a half-point cut decided on in December when the Fed reduced the discount rate (the rate it charges on loans to banks) to 6 1/4 per cent from 7 per cent.

Michael Prowse on the low-key approach to easing Fed funds

Discount rate cuts are infrequent and highly visible signals of the Fed's monetary intentions.

Last December's cut was justified by "weakness in the economy, constraints on credit, and slow growth of monetary aggregates."

All these factors undoubtedly lie behind the new, apparently lower, tar-

get for the Fed funds rate. But the timing of Tuesday's move was puzzling as it followed better-than-expected employment figures the previous Friday.

In December non-farm employment dropped by 76,000 - less than the falls of 258,000 and 180,000 registered in November and October. Many analysts thus expected the Fed to wait until the release of producer price figures tomorrow and only sanction another quarter-point cut in the Fed funds rate if these were encouraging.

But two factors may account for the Fed's wish to move sooner. The first was to bolster confidence in the wake of the weekend collapse of Bank of New England. By signalling lower interest rates, albeit obliquely, the Fed is encouraging banks to make credit available on easier terms.

This argument cannot be pressed too far because the central bank has a history of not allowing individual

bank failures to influence the conduct of monetary policy.

The other reason for a swift move is the Gulf crisis. The Fed may have wanted to push rates down before yesterday's meeting between Mr James Baker, US secretary of state, and Mr Tariq Aziz, Iraq's foreign minister, and well before expiry of the deadline for Iraq's withdrawal from Kuwait.

Most analysts expect the Fed to sanction further cuts in interest rates as the recession gathers momentum, although the next move may be delayed until February.

They point out that many consumers and businesses have not seen much benefit from Fed easing: commercial banks' prime lending rates are 9 1/4 per cent, only half a point lower than a year ago.

But if Mr Greenspan stays true to form, and the economy does not collapse, the easing will be cautious and incremental rather than bold.

US angrily asserts corruption growing in Argentina

By John Barham in Buenos Aires

THE US ambassador to Argentina yesterday gave an unmistakable indication of US anger at growing corruption in the government of President Carlos Menem.

Mr Menem's government has been criticised for corruption, privatisation and deregulation. The scope for corruption by bureaucrats, he said.

However, bankers, businessmen and diplomats all agree that Argentina's aggressive privatisation programme has become riddled with corruption. The ambassador's letter came to light after *El Pais*, a Spanish newspaper, reported on Sunday that a US company had been asked for a bribe. Further allegations emerged this week, involving half a dozen American companies whose investments were hampered by corrupt officials.

Mr Menem has promised to investigate the Swift Armour allegations.

US officials have complained repeatedly to the government about the extent of corruption.

Mr Todman's decision to make public Washington's concerns indicates his view that Argentina has taken insufficient action to deal with the problem. A western diplomat said: "We are not against corruption because we are a good country. Our line is that corruption is hurting Argentina because it is discouraging foreign investment."

The US is also angry because, it claims, European companies have shown fewer scruples over paying bribes. The Foreign Corrupt Practices Act forbids US companies from paying bribes.

Bush releases \$42m in El Salvador aid

PRESIDENT George Bush has decided to freeze \$42m in frozen military aid for El Salvador after concluding that Salvadoran rebels are committing human rights abuses and stealing weapons, administration and congressional sources say, AP reports from Washington.

Although the White House plans to release the money embargoed by Congress last year it will not move immediately to disburse any of it, the sources said.

The president's decision was to be forwarded to Congress yesterday as part of a status report on El Salvador's peace process and its investigation of the November 1989 murders of six Jesuit priests, their housekeeper and her teenage daughter.

Under the 1991 foreign aid law, half the \$85m in military aid for El Salvador was frozen in an effort to encourage the government to reach a negotiated peace settlement with rebels of the Farabundo Marti National Liberation Front (FMLN).

As a warning to the rebels, the law stated the money could be restored if the FMLN failed to negotiate in good faith or continued to rely on violence to achieve its goals.

Specifically, the sources said, Mr Bush concluded that continued "significant shipments of lethal military assistance" from outside the country warranted restoration of the government's own military aid.

Some Democrats see the administration's move as an attempt to capitalise on the anger that followed last week's downing of a US army helicopter east of San Salvador and the alleged murder of its crew members.

The administration contends that two of the three men who died were executed by FMLN troops on the ground after they had survived a crash landing.

The concern among Democrats is the provision that withheld the military aid was that restoration of the money could further harm the atmosphere for United Nations-sponsored peace talks.

Two prosecutors have quit the investigation into the murder of the Jesuit priests.

Judicial sources claimed it was because the government and military were mishandling the case.

Mr Roberto Mendoza, attorney-general, said the men resigned their positions "to dedicate themselves to the free practice of their profession". He denied they had been subject to pressures or death threats in the sensitive case.

But sources said Mr Alvarez Campos and Mr Edward Blanco resigned to protest at senior officials' handling of their probe into the 1989 murders, which many claim were carried out by an army unit.



A Mohawk Indian is arrested after protests on a reserve near Montreal late on Tuesday. Thirteen policemen and eight Mohawks were injured in the clash, sparked by a minor traffic incident.

Mexico seeks free-trade deal at summit

PRESIDENT Carlos Salinas de Gortari of Mexico today opens a two-day summit with five Central American presidents to discuss setting up a regional free-trade agreement to come into effect by the end of next year, *Rebecca Doolittle* writes from Mexico City.

Mr Salinas's talks with the presidents of Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua will include

regional peace processes, drug trafficking, debt repayment and the San José regional energy pact.

Mexico has enjoyed a favourable balance of trade with Central America: last year it exported \$444m (\$230m) of goods to the region while importing only \$55m.

"It is the duty of a larger country to co-operate with its neighbours and it is also convenient for us," said Mr Fernando Solana, minister of foreign affairs. Agricultural products will initially provide the largest volume of imports to Mexico.

The San José accord is likely to be a key element at the summit. Established in 1980 by Venezuela and Mexico, it ensures a steady supply of oil and credit to Central American and Caribbean countries.

Army support for Pinochet reaffirmed

CHILE'S army has publicly backed General Augusto Pinochet, the commander in chief, after allegations that the former president was losing some of his loyalty.

A statement issued after a meeting of generals, including Gen Pinochet, on Tuesday said the army "reaffirms its unconditional loyalty to the commander in chief. It hopes that these irresponsible attacks will end as they do not only affect [the army] but pose a grave threat to national security."

The statement follows publication of a private newsletter written by former senior army officers, some involved in the military government, saying some generals were unhappy with Gen Pinochet's continued command.

Gen Pinochet handed over the government to President Patricio Aylwin in March last year after losing a 1988 plebiscite designed to extend his 17-year rule.

Gen Pinochet remained as army commander in chief, creating a headache for the civilian administration which took power after pledging to deal with the military's well-documented human rights abuses.

Relations between Gen Pinochet and Mr Aylwin are at their lowest point since the new government came to power.

Menem rules out pardon for officers in uprising

PRESIDENT Carlos Menem of Argentina said seven army officers sentenced to life imprisonment for leading a bloody revolt last month would not receive pardons while he was in office, writes John Barham.

Reserve Colonel Mohamed Ali Seinedin, the ringleader, and six other officers were sentenced on Tuesday for leading a mutiny in July, December 3, which cost 13 lives.

The seven men will be eligible for parole in 20 years and will be expelled from the army, a military tribunal ruled. The sentences must still be reviewed by civilian courts.

More than 500 junior officers and non-commissioned officers are being tried by the tribunal for their part in the day-long uprising. The government has demanded capital punishment for the rebels, but later President Menem ruled out any executions in Argentina.

Col Seinedin and three of the other soldiers convicted on Tuesday have served prison sentences for a previous rebellion. Mr Menem pardoned them in October 1988.

INTERNATIONAL NEWS

Australian trade deficit shrinks

By Kevin Brown in Sydney

AUSTRALIA'S current account deficit fell sharply in November, raising hopes that the deficit for the year to June may fall below the government's A\$18bn (\$7.4bn) target.

The government statistical service said the November deficit was A\$1.34bn, or A\$1.57bn after adjustments for seasonal factors. The unadjusted deficit was A\$1.62bn in October, and A\$1.87bn in November 1989.

The November figure took the unadjusted cumulative deficit for the first five months of the 1990-91 year to A\$7.63bn, against nearly A\$11bn in the same period last year.

The deficit reached A\$2.1bn for the year to June 1990, equivalent to 5.5 per cent of gross domestic product.

Mr John Dawkins, the acting Treasurer (finance minister), said the figures showed the government's policy of using high interest rates to reduce imports was working.

However, the figures showed that imports rose by 6 per cent, reflecting continued strong demand in spite of Australia's slide into recession in the last quarter of 1990. Exports rose by only 2 per cent.

Mr Dawkins said the increase in imports was largely attributable to higher oil prices caused by the Gulf crisis, a build-up in oil stocks, increased defence spending, and a fall in the value of the Australian dollar.

"Today's figures show Australia is continuing to make progress in overcoming its current account deficit despite the pressures arising from a range of international factors."

Critics of government policy said the continued resilience of exports indicated that the deficit was unlikely to make the economy moves out of recession, which most analysts say will happen in the second half of this year.

South Africa takes further step along road to ending apartheid in education Whites-only state schools open doors to blacks

By Philip Gawth in Johannesburg

SOUTH Africa came a step closer to ending apartheid in education yesterday when previously whites-only state schools in the Transvaal started the new school year by opening their doors to all races.

A total of 33 primary and secondary schools in the Transvaal admitted non-white pupils for the first time, under a scheme announced by the government last year allowing white parents to vote for schools attended by their children to become non-racial.

Another 172 state schools around the country will follow suit later this month. Private schools have been mixed for some years.

The 205 schools represent about 10 per cent of the approximately 2,000 state-run white schools in the country, and include some of the country's best known state schools.

Predictably the majority of schools opening are in more liberal areas: 107 in the Cape and 64 in Natal, compared to the Transvaal's 33 and only one in the predominantly Afrikaans Free State. The overwhelming majority are English-medium schools.

The new scheme has been severely criticised in some quarters for failing to get to grips with the massive educational problems the country faces. Principal among these is the appalling state of black education.

Critics note that the new scheme leaves the decision to open white schools in the hands of white parents, involves a degree of privatisation and fails to address racial funding disparities and the issue of a single department of education. Currently the country is saddled with the complex and wasteful structure of 14 education departments - one for each homeland and one for each population group in the republic.

But Westpac rejects such claims. "We have started the process of closing the branch," says Mr Choi. "There is no hidden agenda."

With the departure under way, other foreign companies will be left to consider the lessons of Westpac's experience.

Most obviously, the episode demonstrates the disruptive power of a relatively small group of trade unionists. Westpac is by no means the only foreign bank to suffer from labour relations problems. Banque Nationale de Paris and Barclays, among others, have also endured difficult strikes.

"It can be a very volatile situation," argues Mr David Hawkins, manager of Standard Chartered in Korea, which has enjoyed relatively peaceful labour relations. "Small militant groups can do so much damage."

He argues that the effects of the dispute could work in two ways. "On the one hand it is good for management because it will show the unions that they can't get away with unreasonable demands. But it may also tempt them to milk foreign companies for as much as they can if they think they are going to pull out."

For Mr Clarkin, the principal lesson is patience. "You must remember that the industrial relations system here is relatively young. The principles are fairly similar but you have to be much more patient in union dealings."

Despite the current concern, most



Apartheid in retreat: Black and white pupils together in South Africa yesterday on the first day of the school term

Westpac's ambitions in South Korea end in acrimony

The Australian bank is the first to withdraw from Seoul because of labour disputes, writes John Ridding

WHEN union representatives from South Korea's foreign banks meet what, there is little doubt about what will top the agenda.

Earlier this week, Westpac, Australia's largest bank, announced its intention to close its Seoul operations. The reason - a protracted and acrimonious strike by 16 of its 38 workers.

The strike, and Westpac's response, have caused consternation in the foreign banking community. Never before has a bank withdrawn from the market because of a labour dispute.

The incidents at Westpac will probably harm Korea's reputation as a place to do business. "You would be foolish to ignore what has happened if you are considering doing business here," says Mr Jeffrey Clarkin, general manager for Korea of the Australia New Zealand Banking Group. "It strongly signals one of the difficulties of the market."

Labour problems, along with rising costs, have prompted a fall in new foreign investment in Korea. The number of new investment projects slipped from 332 in 1989 to 177 for the first three-quarters of last year. The number of departures has also increased.

But most believe the problems at

Westpac are unlikely to trigger similar disorders by other banks. Mr Clarkin, like most of his colleagues, plays down the implications. "I can't see this incident as serving notice to the other foreign banks," he says, pointing to Westpac's history of labour disputes in Korea. The Australian bank also suffered a difficult strike in 1988.

The latest episode in this history has been the most damaging. For the past 16 months management and unions have tried, unsuccessfully, to negotiate a new collective agreement. For the last four months, 15 of the branch's employees have been on strike, an action marked by accusations of violence from both sides.

Many of the differences, including salary and working conditions, have

been resolved. But the most intractable problem - an unprecedented demand by the union for equal representation on a personnel committee - proved insoluble.

"This would give the union veto power over management decisions on personnel matters," says Mr Choi Dong Soo, chief manager of Westpac's Seoul branch. "We simply cannot yield on this fundamental principle of management rights."

Union leaders are now arguing that Westpac is bluffing and may even be considering re-opening after it has closed down. "Management has been officially informed the union that they are pulling out," says Mrs Choi Chung Ae, vice president of the Westpac Union. "It is all a big press play."

But Westpac rejects such claims. "We have started the process of closing the branch," says Mr Choi. "There is no hidden agenda."

With the departure under way, other foreign companies will be left to consider the lessons of Westpac's experience.

Most obviously, the episode demonstrates the disruptive power of a relatively small group of trade unionists. Westpac is by no means the only foreign bank to suffer from labour relations problems. Banque Nationale de Paris and Barclays, among others, have also endured difficult strikes.

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For Mr Clarkin, the principal lesson is patience. "You must remember that the industrial relations system here is relatively young. The principles are fairly similar but you have to be much more patient in union dealings."

Despite the current concern, most

believe that the incident at Westpac is unlikely to spread. "There is only a very small chance of sympathy actions," says Mr Lee Yoon Shin, chairman of the federation of foreign bank workers. He rejects claims that Westpac was targeted by unions as a test case.

Ironically, Westpac's departure comes at a time when many banks are talking of improvements in industrial relations. Pay demands, the traditional problem, have been much more restrained.

"Demands are still in the 50 per cent to 80 per cent range," says one foreign banker, "but last year we actually settled at about 15 per cent."

None the less, with profitability declining because of financial liberalisation and restricted access to funding, several banks are considering withdrawing from the market. "Most saw profits fall last year and this year will be tougher still," says one European banker. "I think we could see four or five banks leave over the next two years."

For those who are committed to the market, however, industrial relations will remain an important concern. All are hoping that if Westpac is the first bank to leave because of labour-management disputes, it will also be the last.

US hits at Philippine move to close bases

By Greg Hutchinson in Manila

THE US yesterday criticised Philippine proposals to "phase out" the US military presence within five years from September.

In talks on the future of US bases Mr Richard Armitage, the US negotiator, said the Philippines proposal ruled out in advance the possibility of an access agreement, a concession the Americans believed they had won from the Filipinos in earlier rounds. Such an agreement would have allowed the US port and flight rights, as well as giving it a small military presence in the Philippines.

Mr Rafael Alunan, a Philippine spokesman, said national defence, sovereignty and development defined the country's position on the future of the bases, which include Subic naval base, home of the US Seventh Fleet, and a crucial re-supply and repair centre in the event of a Gulf war.

Pakistan sells bank

Pakistan yesterday completed the partial privatisation of a state-owned bank, selling 26 per cent of the shares of MCB (Muslim Commercial Bank) to a consortium of 12 investors for Rs440m (\$28.5m), writes *Furhan Bokhari* in Islamabad.

The group is now required to manage MCB and sell 25 per cent more of the shares to the public. The government will retain 49 per cent.

The sale was seen as an important test for the government's recently introduced policies of privatisation and of giving incentives to industrial investors.

Nigerian imports up

Nigeria's imports from its main trading partners saw a substantial rise last year, but the government's decision last week to extend pre-shipment inspection could add to the difficulties of doing business in black Africa's largest market, writes William Keeling in Lagos.

Britain's position as leading exporter to Nigeria was strengthened in 1990, with exports rising by 37.5 per cent.

IT'S GOING TO BE BUSINESS AS USUAL DURING OUR FINANCIAL REORGANIZATION.

On January 21, 1988, when this management team took on the challenge of renewing Pan Am, it was with full knowledge that the task would not be an easy one.

Two decades of heavy operating losses had placed severe financial strain on Pan Am and greatly reduced its ability to compete in a rapidly changing, intensifying competitive environment.

To bring the airline back to its historic preeminence, we developed and initiated a three-point strategic plan:

- (1) Invest the money required to return Pan Am to the service standards that once led the industry.
- (2) Provide financial resources by selling assets not fundamental to the operation of a strong airline.
- (3) Rebuild employee commitment so that once again Pan Am people feel and act like the special people they are.

Until mid-summer 1990, the plan was working.

We were an industry leader in on-time performance, receiving the highest passenger-satisfaction ratings in our history, carrying record numbers of passengers, and setting new revenue records by the month.

A WORLD IN CRISIS

Then Iraq invaded Kuwait, and all forecasts of operating results went with it. On an annualized basis, Pan Am's fuel bill increased by a catastrophic \$500 million, \$150 million in the 4th quarter alone.

Concurrently, the growing recession in the U.S. and deteriorating economic conditions abroad combined to bring about a decline in air travel.

These economic shocks, converging within a six-month period, have taken a heavy toll on this company's cash flow. The progress we have made on our operating and strategic plans cannot sufficiently offset these setbacks.

What can offset them is our agreement with United Airlines which will provide us \$400 million from the transfer of some of our London routes as well as opportunities for greatly increased revenues through a comprehensive marketing agreement. While we have already received \$110 million, U.S. and British Governmental approvals are required before this agreement is final and the remaining funds become available to us.

As a result of these events, a restructuring of our financial obligations is required.

And, restructuring requires time. Therefore, we have filed to begin the reorganization process under Chapter 11.

BUSINESS AS USUAL MEANS BUSINESS AS USUAL

Unlike some reorganization filings in this industry, our action was not taken as a result of labor strife.

We have sound, constructive relationships with our 30,000 employees, and effective labor agreements with all of our unions.

As this is a filing for financial restructuring only, all flight operations will continue as usual, at our same high levels, without a ripple of interruption.

- We will continue full flight schedules on all routes, including the Pan Am Shuttle and Pan Am Express.
- Our relationships and agreements with Travel Agents and other airlines will remain intact. And, of course, all Travel Agent commissions will be paid.
- Tickets will be honored as usual.

FINANCING IS IN PLACE

Bankers Trust Company and United Airlines have sufficient confidence in our future to provide us a loan of \$150 million as part of the reorganization process, subject to court approvals.

This, combined with cash on hand from operations, will meet our liquidity requirements until the United Airlines transaction is concluded.

Which, in turn, will put us in a solid cash position to continue to implement our strategic plan.

THE FAR-REACHING BENEFITS OF THE PAN AM- UNITED AIRLINES AGREEMENT

Our cooperative agreement with United Airlines is moving forward as planned.

What this provides is a multitude of substantial, tangible benefits to our customers, as well as a strong improvement in our financial position.

First, a substantial cash infusion will happen upon closing.

Second, we and the flying public will reap the benefits of a cooperative frequent flyer program, one which will be the most attractive in the industry.

Third, Pan Am will benefit by United's ability to feed U.S. passengers into Pan Am's international network.

Fourth, the two airlines will coordinate schedules for maximum passenger convenience.

Fifth, and of major importance, is United's \$100 million consumer ticket

guarantee program which will provide assurance to all Pan Am ticket holders.

A STRATEGY FOR LONG-TERM SUCCESS IS IN PLACE

Pan Am is an airline monumental in its contributions to aviation. For it was Pan Am, single-handedly and against enormous odds, that opened America, and the world, to international air travel.

We realize that Pan Am's future success cannot be built solely on its historic leadership. But, we can once again be a great airline, and, we're confident, a financially successful one.

To bring this about, we are working to position the airline to benefit from the tremendous growth that lies ahead in two major economic sectors of the world: Continental Europe and Latin America.

We continue to fly to more European cities than all other U.S. airlines combined. We are the only U.S. carrier that serves virtually every emerging country in Eastern Europe, as well as the Soviet Union. We are continuing to develop Frankfurt into a major European hub, which means we'll be situated right in the middle of a united Europe and well positioned to serve Eastern Europe as it grows in economic importance.

Latin America, our other area of concentration, and quite likely the world's next boom area, is now being served, profitably, from our vastly enlarged Miami hub. We now fly to 56 international destinations and 31 U.S. cities from Miami. We have enjoyed continuous, profitable growth in Miami for 62 years and consider our current Latin American strength as a base on which to build even greater success.

We ask you to stay with us during this time, not as a favor to us, but as a service to yourself. We want to retain your business and to continue to earn your loyalty.

We are totally dedicated to operating the kind of airline that rightfully attracts — through a high level of service — more than its share of travellers.

Today, Pan Am offers proud service to over 115 cities in 51 countries on five continents.

We look forward to flying with you.



Thomas G. Plaskett
Chairman and Chief Executive Officer
Pan American World Airways, Inc.

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Saudi Basic Industries Corporation



Paris export credit checks tightened

By William Dawkins in Paris

COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur), the French export credit guarantee body, is to create a network of commercial information gathering and debt recovery agencies in central and eastern Europe.

It has just announced its first step, the creation of a Vienna-based agency named Intercredit, in partnership with Kreditanstalt für Wirtschaftsförderung, an Austrian credit control group.

This aims to create an intelligence network by taking stakes in local agencies.

The partners have just completed a co-operation accord with a Hungarian agency, Sencor, to form Intercredit Budapest and are negotiating with partners in Poland, Yugoslavia and Czechoslovakia.

This is part of Coface's policy of linking up with local credit agencies to improve its market intelligence on the ground.

Over the past two years, it has taken stakes in Eurocredit, a supplier of Italian information; NCM, the Dutch credit group; and Hermes, a German agency.

In the first half of last year, Coface guaranteed around 40 export contracts to businesses in Hungary, Poland, and the former East Germany.

Commission postpones review of farm reform

By David Gardner in Brussels

THE EUROPEAN Commission yesterday postponed its second of three scheduled examinations of reforms to the EC's farm subsidies regime, before the arrival today of Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (GATT), in Brussels to discuss prospects for relaunching the Uruguay Round trade liberalisation talks.

Mr Dunkel is to see Mr Ray MacSharry, the EC agriculture commissioner, and Mr Frans Andriessen, external affairs commissioner. The object will be to sound out whether the EC reforms - being negotiated in great secrecy - are likely to go far enough, to resume the Round.

This was stalled last month when the US and Cairns group of agricultural exporters rejected the Community's offer to cut farm subsidies as insufficient.

Yesterday's postponement was officially attributed to a crowded Commission agenda.

In addition, seven of 17 commissioners absent from the first meeting last Friday now need to make written submissions before the Commission's "seminar" on the Common Agricultural Policy (CAP), from which reform proposals will go to the EC member

states. This will now take place on January 20.

Commission officials describe the delay as an index of serious intent rather than prevarication. They are going to negotiate verbal lengths to present the CAP reform discussions as internally driven by the need to rein in farm spending, rather than orchestrated by "the background music of GATT", as one official described it.

The Commission is acutely concerned to reach a unified position on farm subsidies. The EC signally failed to do this before and during the Uruguay Round summit in Brussels in December, when serious differences emerged within the Commission and between it and member states.

Shortly afterwards, officials say, Mr Jacques Delors, the Commission president, tried and failed to get support from Community governments for an EC heads of state summit on the CAP.

As this experience indicates, the perceived political unpopularity within the Community of cutting support to farmers makes it vital, in the Commission's view, that the reforms which emerge are seen to be an internal restructuring rather than a US imposition.

Divisions within the Commission remain sharp, according to one senior EC diplomat. "There is no agreement at all... not even a common position on tactics: the wounds are still too fresh from the GATT summit," he said.

None the less, one Commission spokesman insisted, that "the Commission has indicated (to the GATT) where there are areas of flexibility and that is still on the table."

At the December summit, the EC first proposed a 30 per cent cut in internal farm subsidies, over 10 years headed to 1988.

The US, backed by the Cairns group, demanded a 75 per cent cut by 2000, a 90 per cent cut in farm export subsidies, and greater access to EC markets.

The Commission then proposed moving the base year for internal cuts to 1988; to discuss limiting exports either by cuts in volume or subsidies; and minimum levels of access for imports - though this latter was taken out of the offer by EC farm ministers.

On Tuesday, the French farmers' union said that reform of the Common Agricultural Policy, shifting its focus from price support towards direct income aid for farmers, would triple costs for the European Community.

Vietnam and Taiwan set up shipping line

A state-run Vietnamese container company, Viconship Saigon, and Taiwan's Unigrip Line of the Evergreen Group, have set up the first container shipping line between the two countries, the official newspaper, Hanoi Mol, said, Renter reports from Hanoi.

The first 47 containers from Taiwan arrived in Saigon Port on December 29.

Meanwhile, Hanoi's state-run Vietnam Airlines has said it has leased a Boeing 737-300 from a Dutch charter airline, Transavia, as part of an effort to expand and modernise a fleet composed mainly of second-hand Soviet aircraft.

The Vietnam news agency said a contract signed by the two airlines would increase capacity on Vietnam Airlines' international and domestic routes.

The new agreement marks the second time communist Vietnam has leased a western aircraft, aviation officials said. The Australian airline, Qantas began monthly chartered flights to Vietnam in December.

Government aviation officials said that Vietnam Airlines signed a six-month lease at the end of December for the aircraft, which begins flights on January 22. Under the lease, the Dutch carrier provides pilots and crew.

Computer giants pool sales data

By Alan Cane

PERSONAL computer manufacturers worldwide are co-operating in an unprecedented fashion to pool the sales information in an attempt to create a more reliable and useful picture of the PC marketplace.

Last month, the Worldwide Microcomputer Statistics Association was established in San Francisco under the chairmanship of Mr Geoff Young, of Compaq, the US, the leading manufacturer of high-performance PCs.

The executive committee includes representatives from Apple Computer, Intel, International Business Machines, Wyse and Zenith.

The worldwide membership includes Hewlett Packard and NCR of the US, Tulip and Philips of the Netherlands, Olivetti of Italy, Siemens of Germany

and ICL and Toshiba of Japan. The initiative for the new association came from Intel of the US which is a microcomputer manufacturer in its own right, as well as one of the world's leading semiconductor makers.

It sprang from concerns that market research organisations were failing to provide market data of sufficient quality and reliability to be used as a basis for business planning.

In the US, semiconductor makers already pool sales data to help build an accurate picture of the market place, but PC makers have to date been reluctant to release critical market data.

The idea behind the new association is that members will feed confidential billing information in units and dollars to a third party, understood to be the consultancy

Price Waterhouse, which will provide each company every quarter with the total size of the marketplace and their individual market penetration in various product categories.

Mr Roland Dietz of Tulip Computers, who with Mr Marcel Leblond, head of research for Intel Europe, is organising the European activities of the association, said more reliable market intelligence would be "incredibly important" to the personal computer industry.

It would provide companies with better control of investment, production and product introductions.

Mr James Beveridge, computer industry analyst for the consultancy IDC in the UK, said he endorsed the new body and believed market research organisations should work with it to ensure its success.

GEC Alsthom secures \$164m train deals

By Alan Cane

GEC Alsthom, the Anglo-French engineering group, has confirmed that it has received train-locomotive orders, with a combined value of \$164m (\$85m), from the Netherlands and Ecuador, Ronald van de Krol writes from Amsterdam.

Dutch Railways, a long-standing customer of the GEC Alsthom rail division, has ordered 43 electric locomotives for £70m. This is a follow-up order to a previous purchase of 38 locomotives.

These are still under construction and deliveries are expected to begin in the second half of this year.

GEC Alsthom, which is legally registered in the Netherlands but has its head office in Paris, is also to supply Ecuador's national railway company with nine diesel-electric locomotives for use on the

mountainous 447km route between the Pacific port of Guayaquil and the capital, Quito.

Deliveries will start in the middle of next year.

The Dutch rail company already has a total of 193 electric locomotives and 131 diesel locomotives in service on the Dutch rail network, all made by GEC-Alsthom.

Mr Donaldson: "This year we'll lose money barring miracles."

Costs are so high that Ford is now assembling truck kits made in Brazil in Kentucky because it is cheaper. Mr Donaldson says it seems incredible that not long ago Brazil was very much in the thinking of both Ford and VW as a major source of vehicles and components for western Europe and the US.

Manufacturers fear Brazil may lose its position as the leading producer in Latin America to Mexico, which is now assembling 600,000 cars a year. They are angry that while their industry has been liberalised the electronics sector remains heavily protected, preventing them from importing the technology and electronic equipment needed to compete.

Mr Marco Carvalanti, the vice-president of Gurgel, which currently produces Brazil's cheapest car at \$7,000, complains that Brazilian producers are also disadvantaged by having to use 70 per cent local content, over which suppliers have a monopoly.

In theory imports should pose little threat as local producers estimate that high tariffs and taxes add a 450 per cent premium. But Mr Paulo Braga, spokesman for Lada, argues that "this figure is a myth created by producers to protect themselves - it applies only to luxury cars imported individually. We can sell cheaply because we are importing large numbers."

The next test will be the arrival of imports from Land Rover, which is considering setting up a plant. While in the short term producers are pessimistic, long term they see new opportunities in the establishment of a southern cone common market. Autolatina is already integrating its Brazilian and Argentine operations to start cross-border exports from January.

Imports take on Brazil's car makers

Christina Lamb on the new challenge to a much criticised industry

WHEN President Fernando Collor recently announced the opening of Brazil's car market to foreign imports, Brazilian magazines began over the months to select their dream machine. Thus it was somewhat disappointing when after 30 years the first foreign cars to arrive in any number were Soviet Ladas.

Billions across Brazil will soon be plastered with pictures of Soviet President Mikhail Gorbachev asking: "Would you buy a car from this man?" If the long-protected Brazilian motor industry has any say in the matter customers will not get the chance.

The arrival of the \$8,000 (\$4,145) Ladas, under-cutting most Brazilian models, has spurred the formidable auto industry lobbying machine into action, accusing the importers of dumping and warning of the threat of mass lay-offs.

But the dreams of Brazilian consumers over the possibilities opened by liberalisation remain. At the annual motor show hundreds of thousands endured two-hour traffic jams to stare at a gleaming red Ferrari with a price tag of more than \$1m.

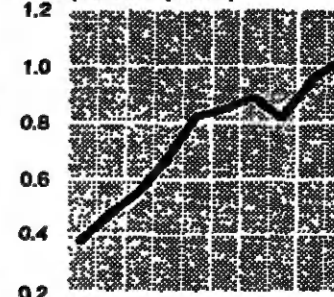
The placing of Gurgel, Brazil's only indigenous car producer, on the next stand was a little unfortunate. In contrast to the Italian car's sleek lines and gadgetry, the Gurgel BR800 is little more than a crude box on wheels.

But there was logic behind the layout. Mr Jaci Mendonça, president of the auto producers' association (Anavea), explained: "We want people to see that they must choose between cheap and sophisticated - liberalisation does not mean they can have both."

The irony is that while this year's show attracted unprecedented crowds because of the chance to see foreign cars, when it was initially begun 30

Brazilian motor industry

Units produced (million)



years ago its purpose was to stimulate a Brazilian motor industry.

The goal appears to have been met today. The Brazilian motor industry accounts for 11 per cent of GDP. In 1989 it earned \$3.8bn in foreign sales and supported 4.1m workers in direct and indirect employment. It drives other large industrial sectors - such as steel, glass and plastics - making its performance politically very sensitive.

Thus it is crucial how, in coming months, the motor industry faces up to the new challenge. Car producers will receive little sympathy from the government, which regards them as among the worst villains among Brazil's many powerful cartels. Since the 1950s they have been protected by high tariffs and import bans. The huge potential market persuaded Ford, Volkswagen, General Motors and, most recently, Fiat, to set up local production. These four account for over 98 per cent of sales.

But the great promise shown in the 1970s was not borne out in the 1980s, when optimistic predictions that annual production would reach 2m units were confounded by the second oil shock and the debt crisis.

Instead production fell from more than 1m units in 1980 to

936,000 in 1989. The present recession means that final 1990 figures will probably show a further drop to 750,000. So disillusioned were the two biggest producers, Ford and Volkswagen, that while deadly rivals moved elsewhere, in Brazil they merged their operations into the holding company Autolatina, which has 63 per cent of car sales.

Mr James Donaldson, head of Autolatina, is fed up and angry at charges that producers are providing little choice at inflated prices. Car taxes in Brazil are, he says, the highest in the world and have just been raised from 42.3 per cent to 45 per cent.

Taxes and production costs together account for 85 per cent of the final price and with domestic sales falling, the manufacturers chalked up losses for most of the 1980s. They were sustained only by financial speculation, which last year produced as much as 80 per cent of revenues, and by exports.

Exports tripled between 1979 and 1988 to 332,000 units. But even that has now been hit by an overvalued cruzeiro and huge price increases for raw materials and energy. Fiat cut their exports but Autolatina is committed to contracts. Says

Mr Donaldson: "This year we'll lose money barring miracles."

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EGYPTIAN GULF BANK

BALANCE SHEET AS OF DECEMBER 31st, 1988
(in L.E.)

	31-12-88	31-12-87
Total Assets & Liabilities	734,874,394	652,717,462
Capital	17,783,416	17,783,416
Loans & Discounts	547,776,798	421,218,602
Net Profit	6,794,202	6,690,576
Total Assets at December 31, 1988: U.S. 311,982,937 (at exchange rate 2.3555)		

Egyptian Gulf Bank's Branches:

- Head office at Giza Branch
- Cairo Branch ● Al Azhar Islamic Branch
- Heliopolis Branch ● Alexandria Branch

Head Office

8,10 Ahmed Nessim Street, Giza, Egypt

Telephone: 736181, 736179, 728953, 723268

Telex: 2021420517 EGUB UN Telegrams: "ENGULFBANK GIZA" Fax: 726098

INTERNATIONAL CONFERENCES & EXHIBITIONS

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Building workers risk being the 'navvies' of Europe

By Charles Leadbeater, Industrial Editor

BRITISH building workers are in danger of becoming the 'navvies' of Europe, according to a report published yesterday by the National Economic Development Council.

The report warns that without substantial restructuring the British construction industry risks losing ground to Continental European and Japanese groups, which are emerging forces in the increasingly international market for large projects.

These foreign groups have often had greater financial strength than their British counterparts, they use integrated teams of designers, engineers and construction teams and spend more on training and research and development.

There is a danger that these international groups will take a growing share of large, complex projects forcing the British industry into the lower value added end of the market, according to the report.

The report says "Continental and Japanese competitors are already targeting export markets, with the prospect for United Kingdom firms of erosion of market share at home without a compensating growth across the Channel."

Sir Christopher Foster, chairman of the NEDC construction industry sector group said he expected 1992 would be a worse year for the industry than this year as commercial property projects came to an end.

The housing construction industry was bottoming out after a very sharp fall, according to Sir Christopher, a director of Coopers & Lybrand Deloitte.

The report estimates that building costs for offices, factories and shops are about 30 per cent higher in the UK than in the US and Continental Europe. It cost £131 per square foot to build an office in the UK in 1989 compared with \$88 in Germany, £70 in France and \$60 in the US.

Invests far less. In 1987 investment in the UK construction industry amounted to 2.6 per cent of output, lower than Germany at 4.9 per cent, France (10.9 per cent) and the US (3.2 per cent).

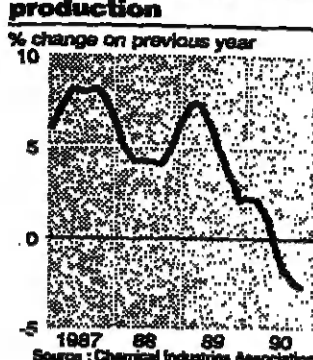
Research and development spending in the German and French construction industries is about 40 per cent higher than in the UK.

Construction: Restructure to Win, is available from the NEDC, Millbank Tower, Millbank, London SW1

UK chemical output falls as European production rises

By Clive Cookson

Trend in UK chemical production



OUTPUT of chemicals in the UK fell by 0.5 per cent in 1990 and the industry's economic experts are forecasting a further fall of at least 1 per cent in 1991. In contrast, chemical production in continental Europe rose by 2 per cent in 1990 and is expected to grow by 2 per cent again this year.

Mr Richard Freeman, who is chief economist at ICI, the largest UK chemical company, presented the Chemical Industries Association's annual economic statistics to a conference in London yesterday.

The recession-resistant pharmaceutical sector was the part of the UK chemicals industry expected to increase output in 1991 - by 3 per cent. Forecasts for the other sectors range from a 4 per cent decline in organics, plastics and dyestuffs to a standstill in fibres, detergents and cosmetics.

Mr Freeman said the chemical industry forecasts were based on the assumption of continued recession in the general UK economy, with a 0.5 per cent fall in gross domestic product and a 2 per cent decline in manufacturing output.

"The forecasts are all based on the assumption of a peaceful resolution to the Gulf crisis or a short war," Mr Freeman said.

Mr Freeman said the association's economics panel believed a "weak recovery" in chemicals production could begin in the second half of 1991. He added, however, that "essentially, the balance is on the side of a weaker development with no recovery through the year."

With demand for chemicals weakening in the UK and still growing on the continent, "there will be an improvement in the industry's trade balance for the first time for several years." The chemicals trade surplus is expected to increase from £2.4bn in 1990 to £2.6bn this year.

Apart from the UK, all the European chemical associations are forecasting increases in output this year. These include 4 per cent growth in Belgium, 3 per cent in Spain, 2.5 per cent in France, 2 per cent in Germany and 0.5 per cent in Italy.

National Economic Development Council

Lamont hopeful on UK recession

By Peter Norman, Economics Correspondent

MOVES to calm fears that the recession in Britain could be as bad as that of 1980-81 came yesterday from Mr Norman Lamont, the Chancellor of the Exchequer.

He told the National Economic Development Council in London that while Britain was entering a difficult year there was no reason to suppose that the recession would have anything like the dimension of that of the early 1980s.

In his first appearance before the tripartite gathering of representatives from industry, government and the trade unions, Mr Lamont insisted that government policies would stay unchanged. He told both sides of industry that the government's priority was to reduce inflation and there was no question of devaluing sterling in the exchange rate mechanism of the EMS.

Speaking after the meeting, Mr Walter Eltis, NEDC's director general, said the chancellor's remarks were "a relief".

Mr Eltis said the real exchange rate was lower than in 1980-81, the underlying rate of inflation that needed to be reduced was much lower than 10 years ago, and

even the most pessimistic forecasters said output would fall by only one per cent this year.

By contrast, output fell by more than 5 per cent between



the peak and trough of the previous recession. At that time, Mr Eltis said, the government was aiming to reduce the underlying inflation rate to 5 per cent from 20 per cent. The government's present goal is to cut underlying inflation - which is retail price inflation minus mortgage interest payments and the petrol tax - to around 3 per cent from around 8 per cent, Mr Eltis said.

Mr Lamont was supported by Mr Michael Howard, the employment secretary. He said that 57 per cent of people being made unemployed found new jobs within three months and predicted that the long drop in unemployment, which ended last Spring, would resume.

Others attending the meeting were less sanguine. Sir James Ackers, representing the chambers of commerce, said the recession felt like that of the early 1980s which had led to the loss of 25 per cent of manufacturing capacity and persistent balance of payments problems.

From the trade union side, Mr Rodney Sickerstaffe, general secretary of the National Union of Public Employees, argued that Britain had entered the European exchange rate mechanism (ERM) at too high a rate and should take advantage of a general realignment of European Monetary System (EMS) parities to achieve a devaluation of sterling against the D-Mark.

But the chancellor said there was no question of a change in Britain's ERM bands while Mr Robin Leigh-Pemberton, the governor of the Bank of England, said he thought a general EMS realignment was virtually inconceivable. The other main EMS countries would resist such a move.

With Budget preparations soon to begin in earnest, both the Confederation of British Industry, the employers' association, and the Trades Union Congress urged the government to adopt a more active fiscal policy following sterling's entry into the ERM.

The TUC advocated increased public spending on research and development, training and help for the poor. The CBI, by contrast, called for a reduction in business taxes to boost investment. Sir Brian Corby, CBI president, said tight controls over public spending would also allow interest rates to be cut sooner rather than later.

National training bodies that service specific industries may be in danger because of the local priorities of the government's new Training and Enterprise Council, Mr Eric Hammond, general secretary of the EETPU electricians' union told yesterday's full NEDC meeting.

Mr Hammond's concerns were raised in a debate on training which was truncated because of the time spent on an earlier debate on the economy.

The economy also featured in the training debate with several participants, including Sir Bryan Nicholson, chairman of the Post Office, warning that the recession could adversely affect training expenditure made by companies.

He said, however, the latest Confederation of British Industry survey, taken in October, indicated that the number of companies intending to spend more on training was larger than those intending to cut.

BRITAIN IN BRIEF



UK orders for GEC Alsthom

GEC Alsthom has announced orders worth about £70m for two gas-fired combined cycle power stations in the UK. GEC Alsthom is a power engineering and transportation equipment joint venture between GEC of the UK and Alcatel Alsthom of France.

Sir Robert Davidson, vice chairman and chief executive, revealed in Amsterdam that the company has total orders of letters of intent relating to five UK combined cycle projects.

Combined cycle power plants link steam and gas turbines to produce more efficient power generation and will play a major role in the transformation of the UK power industry after privatisation.

Housing market picks up

The decline in British house prices is coming to an end, according to statistics for the last quarter of 1990 released by the Halifax Building Society.

Greater London and the south-west both reported slight increases in house prices between September and December last year - the first rise since 1988. But, nationally, the trend is still downwards.

The level of house prices in London rose by 0.9 per cent, and those in the south-west by 0.8 per cent during the period. Nationwide, they fell by 0.6 per cent, with the average house now costing £86,811.

Last act for oldest theatre?

Britain's oldest working repertory theatre, and artistically one of the most successful, will close in three months unless it works out a financial rescue package. Liverpool Playhouse has called in the administrators and could be wound up.

In the meantime, the 80-year-old company will continue its programme of productions under the control of insolvency expert Mr Frank Taylor of accountants Ernst and Young. Mr Taylor was appointed administrator by the High Court.

Bidders emerge for radio station

Lord Hanson, whose Hanson group owns London's easy listening Melody radio station, and London Jazz Radio, the company behind Jazz FM, are considering whether to bid for a new national FM independent radio station.

The specification for the new station, the first of three, was announced by the Radio Authority, the newly formed body to regulate the independent radio network. Lord Chalfont, chairman of the authority, said the new station was intended to offer

an alternative to the pop and rock music that dominates much of the airwaves.

Engineers call for incentives

Engineering companies in the West Midlands, heartland of the UK's industry, are pleading with Mr Norman Lamont, the chancellor of the exchequer, for fiscal incentives to achieve an industrial revival.

The Engineering Employers' West Midlands Association has submitted a paper to the chancellor, as he prepares for his next budget, on the economy and its effect on the engineering industry.

"Ways must be developed to increase the level of quality investment in manufacturing; financial policies must be reviewed."

It would be valuable to have a dialogue with the government to thrash out various misconceptions and misunderstandings," Dr Cedric Thomas, the association's chief executive, said.

Akzo sale to Valhi blocked

Mr Peter Lilley, trade and industry secretary, has blocked the proposed sale by Akzo, the Dutch chemicals group, of its UK organoclay business to Rheox of the US.

The decision was taken on the recommendation of the



Monopolies and Mergers Commission.

The commission said the acquisition would lead to a significant reduction in competition in the market for organoclays, which are used as additives to solvent-based paints and oil-drilling muds.

Dixons says recession over

Mr Stanley Kalms, chairman of Dixons, said that sales at the electrical retailing group had shown a sustained improvement since August and that the company might be pulling out of the UK recession.

"Our margins are growing, sales are growing, everything is growing and it is a sustained growth," he said, in spite of announcing a sharp drop in profits from £32m to £27.2m in the 28 weeks to November 10.

His comments come in stark contrast to the tales of deepening recession emerging from many other retailers and seemingly fly in the face of statistical evidence that has shown that retail sales growth has declined to its lowest levels in a decade. Lex, Page 12

Growth in UK tourism slows

The growth in international arrivals to the UK is slowing, according to figures recently

published.

The International Passenger Survey for October shows that only 2,000 more overseas visitors came to Britain than in the same month a year ago.

This marginal increase, to a total of 1.45m, compares with an overall 4 per cent growth in visitor numbers in the first 10 months of the year.

Mr Michael Medlicott, chief executive of the British Tourist Authority, warned that 1991 would "be a difficult year and Britain will have to work hard to maintain its success".

Michelin faces protest

Production workers at the Stoke-on-Trent plant, in northern England, of Michelin, the tyre manufacturer, are to protest about a three-month delay in pay talks.

Workers have discovered that the company's sales staff have received a 9 per cent rise.

The Transport and General Workers' Union, which represents about 1,800 production workers at the plant, originally accepted the proposal of a delay in wage talks in the light of the company's financial difficulties.

High rent debts in Ulster

Nearly half the companies renting factories from the Industrial Development Board in Northern Ireland are in rent arrears.

A report by the Commons Public Accounts Committee, however, said rent debt to the board had been cut from £1.6m - 29 per cent of total rent - in March 1989, to £800,000 by last June. The board was set up to foster local industry.

Call for school enquiries

Enquiries should be held into all schools for the reorganisation or closure of schools, according to Mr Jack Straw, the opposition Labour party's education spokesman. He also urged that the powers of education ministers should be reduced.

In a consultative document, Making Better Use of Schools, Mr Straw criticised as wasteful and unfair the current system whereby local authorities make reorganisation proposals and ministers make the final



Jack Straw: believes present system is unfair decision. Mr Straw admitted that such enquiries would take time, but said the system would be more efficient and probably quicker overall.

Correction

Contrary to the report in yesterday's issue of the FT, the Aile Court factory of Dowty Fuel Systems is not to close. Under a restructuring programme, the workforce of about 850 is to fall by 300 over the next year.

Britain fails to secure the true hallmark of a literate society

Two studies on the reading skills of seven-year-olds pose some disturbing questions to educators, writes Norma Cohen

Reading studies point to poor standards

By Norma Cohen, Education Correspondent

READING levels among primary school children are below standard, Kenneth Clarke, the education secretary, said yesterday. In addition, a fifth of seven-year-olds in England and Wales are receiving inadequate instruction, while a small but significant number of 12-year-olds can barely read at all.

Announcing the results of two government studies into the reading standards of seven-year-olds, Mr Clarke said that "The standards of reading of pupils in our primary schools are not good enough."

The fact that 20 per cent of instruction is poor is "deplorable", he said. Mr Clarke demanded that local education authorities take steps to improve the quality of reading instruction and ordered further monitoring of standards.

The two studies were conducted by the National Foundation for Education Research and the Independent Schools Association. Both were commissioned last July after educational psychologists at nine local education authorities released their own test results showing that reading standards had been declining

IF a literate population is the hallmark of an advanced society, then the standards of good practice for reading instruction to all schools.

Although there is insufficient reliable information about trends in reading skills, the limited data available point to an unmistakable decline, particularly between 1985 and 1989.

Significantly, the studies show no evidence that new-fangled teaching methods are to blame. Indeed, virtually all schools use a combination of methods to teach reading. The use of any one approach - of whichever type - was found to be harmful.

Regardless of the latest evidence, the debate over how best to teach reading is unlikely to die, particularly since certain approaches have become identified with points on the political spectrum.

The two latest studies were ordered last July by former education secretary, Mr John MacGregor, after a leaked report by education authority psychologists indicated the biggest fall in reading standards among seven-year-olds for 45 years.

They blamed the decline on new teaching methods, such as "real" books, in which children

responded by ordering further inspections of reading programmes and the use of standards of good practice for reading instruction to all schools.

Although there is insufficient reliable information about trends in reading skills, the limited data available point to an unmistakable decline, particularly between 1985 and 1989.

Significantly, the studies show no evidence that new-fangled teaching methods are to blame. Indeed, virtually all schools use a combination of methods to teach reading. The use of any one approach - of whichever type - was found to be harmful.

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Learning to read: reliance on any single teaching method can be counter-productive

learn reading by choosing books that they enjoy. This method had been identified with so-called "child-centred" learning, championed by some on the left and derided by the right.

Mr Martin Turner, educa-



Learning to read: reliance on any single teaching method can be counter-productive

tional psychologist in the London borough of Croydon who released the results, instead urged that phonics become the basis of all reading instruction. Reliance on phonics has been championed by some on the right.

But reading experts caution against an over-reliance on phonics - that is, the "sound-ing out" of words based on knowledge of the alphabet.



Learning to read: reliance on any single teaching method can be counter-productive

For one thing, English is not a particularly phonetic language. Thus, a child reading

the word "come" may pronounce it as though it rhymed with "home" and would pronounce "know" as though it rhymed with "now".

"Children have to learn whole words, they do have to use phonics and they have to read in context," said Mr Donald Moyle, former general secretary of the UK Reading Association. He believes there is a place for real books, phonics and the look-say method in which children are taught to recognise whole words.

Indeed, the latest studies show that schools attaining the highest reading standards are characterised not by the method they select, but by the organisation of instruction and the emphasis placed on reading.

Firm leadership by the head and a reading policy clearly understood and followed by staff are considered the essential elements of success.

Although neither study found evidence that social deprivation or limited resources were to blame for reading failures, HMI said that high rates of teacher turnover have an impact on reading skills.

In a quarter of the schools inspected, more than half the teachers had left during the

previous three years. Only one of these schools was achieving high-quality reading results; half, the standards were poor.

Among the most disturbing findings is the paucity of information available on the reading ability of seven-year-olds. One of the studies found that only 26 of the 94 local education authorities surveyed had kept comparable data on the test results of this age group.

The reluctance to require standardised testing of youngsters - with results available to the public - is in sharp contrast to educational policy in other countries, particularly in the US.

In New York City's troubled school system, for instance, schools are ranked annually - based on how well their pupils are reading.

Mr Clarke said the introduction of the National Curriculum and the requirement that the language and reading skills of seven-year-olds be tested should go a long way towards allowing public monitoring of ability.

However, critics point out that schools are not required to publish the aggregate test results of seven-year-olds, leaving no room for comparing schools or for monitoring progress.

MANAGEMENT: Marketing and Advertising

Privatisation

Power to the people

The UK government has gone extra-terrestrial to launch the offer for shares in the two generating companies, reports Juliet Sychrava

The scene is an alien planet, in a meteoric shower. Enter Captain Kirk, of Star Trek fame, accompanied by a glamorous blonde, and pursued by aliens. He urgently radios the Starship Enterprise with those immortal words "Beam me up, Scotty!" So far, so familiar. But from here on, we boldly go where no Star Trek programme has previously gone. When Scotty mistakenly beams down an umbrella, Kirk responds with a waggish, "Not a broily, you wally!" Scotty's second attempt to beam up the Captain and his sidekick results in their respective heads landing on each other's bodies, leaving the Captain running his hands over unfamiliar curves in dismay. Finally, Scotty gives up. "I haven't got the power!" he announces despairingly.

At this point, actor Simon Cadell, of Hi-de-hi and Colditz fame, appears on the screen. "He hasn't got the power. But you could have National Power and PowerGen. To register for a prospectus in the generating companies' share offers, call 0372 372722."

We are not, after all, on an alien planet. This is the first in a series of TV advertisements devised by Collett, Dickinson Pearce (CDP), the private-

ly-owned UK agency responsible for the government's £6m-£7m campaign advertising the sale to the public of the two generating companies of England and Wales.

Less well known than the regional electricity companies, which are all too familiar to recipients of electricity bills, the generators have already launched their own corporate campaigns designed to raise public awareness of what they do. If all goes well, when the government campaign finishes at the end of February, they should be household names.

The first advertisements in the campaign will appear on TV screens today, slotted into breaks in major feature films, the ten o'clock news, and other high-profile programmes, and closely followed by press advertisements. The central theme will be "having - or not having - the power." Another advertisement features old black and white footage of "Lady Begood" trying, but failing, to launch a ship with a bottle.

But despite the common touch implied by the "Sid" and "Frank" campaigns for gas and the regional electricity companies, respectively, the Daily Mail is the only tabloid

newspaper being targeted. "We aren't marketing as widely as we did for the regional electricity companies," says Cary Martin, deputy chief executive of Dowe Rogerson, the PR company which is acting as the government's marketing advisor and is masterminding the campaign along with James Capel, the government's broker and Kleinwort Benson, its merchant bank. "These are not utilities that you just put in a drawer and forget; they are manufacturing companies with a different risk/reward profile."

Despite the government's oft-stated desire to widen share ownership, the campaign, Martin explains, is directed primarily at existing shareholders. People who subscribed for shares in the regional electricity companies, for instance, will automatically receive a mailing detailing the new offer. The offering, which is expected to raise around £3bn if 100 per cent of both companies is sold, will be considerably smaller than the £5.2bn sale of the regional electricity companies.

The advertising should not, Martin stresses, do more than raise public awareness of the offer and of how to subscribe for it - a much easier task



National Power and PowerGen come to the rescue of Captain Kirk (left) and his Star Trek crew in the share offer ad

now than in the days of the British Telecom flotation. Advertising budgets have gone down, as public awareness of privatisation has risen, explains Martin. "In today's prices Telecom cost £20m, British Gas £25m, BP - which was the biggest privatisation of all - £24m, water £20m, the regional companies £18m."

The campaigns have also become more sophisticated since the early days - with the exception, some critics believe, of the British Gas campaign. The ubiquitous "Sid" and "Frank" ads, which are seen on the

television, says Martin, was much more successful. "He didn't take over the station, but supported it." The new campaign, he believes, will be equally good.

"What CDP does is get the feel, or pitch, very right. What you need is a lightness of touch, and they are phenomenally good at that."

But though it may be the expensive and visible part of the campaign, advertising is not, Martin stresses, what determines whether the punters buy or not. That, he says, is down to the financial press.

Not much room in the middle

John Thornhill on food industry trends

Being a brand manager in the 1990s is going to be a tough job unless you happen to work for one of Europe's giant food manufacturing companies or accept a marketing job at a large food retailer.

A study of the European food industry by the Munich office of Bain & Company, the management consultants, confirms fears already expressed in the industry that medium-sized manufacturers are going to be squeezed between the larger rivals and the leading retailers as a process of consolidation continues through the European market.

As the big food manufacturers and retailers grow more powerful, the smaller manufacturers will be confronted with the choice of either becoming "third hands" of the retailers and manufacturing their own-label products or of significantly strengthening their brands. This they could do either by spending more on promoting them or finding alternative ways of selling them directly to the marketplace.

The struggle of the 1990s will be the fight for control of the value-added chain that stretches between the food manufacturers and the retailers. Instead of just selling brands created and established by manufacturers, retailers are now endeavouring to seize control of the higher value added link in the chain.

This trend has been particularly apparent in the Netherlands and the UK where retailers have developed central buying and distribution systems, invested heavily in technology - which gives them excellent market knowledge of how products sell and their relative profitability - and introduced a high proportion of own-label products.

Bain suggests that there are several ways for suppliers to tackle this threat. The first is to stimulate the "pull" element in the selling equation. This can simply mean spending more on advertising. Bain cites the case of Coca-Cola, which increased its sales in Germany by

promoting the brand through a big advertising programme, to the detriment of own-brand sales such as that sold by Aldi, the discount grocer.

But advertising campaigns and product developments can be targeted even more precisely to hit specific micro-markets. The report claims that during the 1980s Unilever, by increasing its number of margarine brands targeted at specific consumer groups, created very strong barriers to prevent other brands entering this market in Europe.

"The golden rule for a brand manufacturer must be to determine, regularly and sufficiently in advance, the amount of investment required to defend the brand portfolio," says the report.

This will consist not only of defining how to expand some brands but also selecting appropriate strategies for withdrawing brands from the manufacture of own-labels for retailers.

Bain also suggests that manufacturers develop the "push" side of the marketing equation by maintaining direct access to their consumers. This could either be by keeping their own channels of distribution or by insisting on a presence in retail outlets.

Procter & Gamble has developed a permanent presence at the headquarters of Wal-Mart, the US retailing chain, making the relationship between the two. Bain says that such co-operative efforts can result in substantial sales increases and reductions in inventory costs. One brand manager interviewed by Bain explained: "Rather than creating incentives for retailers to buy more we should show them how to sell more."

This, of course, presupposes that it is possible to develop such relationships, which Bain admits may require a fairly dramatic change in attitude among retailers in countries like Germany and France. The ideal solution for the manufacturer ultimately depends on establishing mutual friendship, respect and, most important, mutual dependence with the retailer.

The obsolescence of advertising

Simon Holberton reports on a call for a renaissance of marketing

"MARKETING is everything." Well, as Mandy Rice-Davies might have said, a marketing guru would say that, wouldn't he? Yet Regis McKenna has a point.

He has surely spotted a trend when he describes the evolution of marketing from the 1950s to the present day as a movement from sales-driven (the "any colour as long as it's black" school), to customer-driven (the "tell us what colour you want" school).

For McKenna the swelling wave of the future - "let's figure out together whether and how colour matters to your larger goal" - is a form of marketing that is oriented to creating rather than controlling a market.

There is a form of marketing that is based on "developmental education, incremental improvement, and on-going process rather than on simple market-share tactics, raw sales, and one-time events."

The explosion of choice and a concomitant diminution in the effect of advertising are the two principal forces behind the changing environ-

ment for marketers. The revolution in information and manufacturing technology during the 1980s has, he argues, fostered the ability of manufacturers to customise their mass-produced products as never before.

Here he cites two examples: a Japanese bicycle manufacturer, National, which makes made-to-order bicycles in two weeks, the possible stylistic variations of which number more than 11m; and a US audio company, Perseus Systems, which sells customisable music tapes from its library of 5,000 songs.

The consumer faces a different sort of choice as well in the providers of products and services.

Twenty years ago International Business Machines had 20 competitors; today it has 200. There were fewer than 90 semiconductor companies;

today there are almost 300 in the US alone.

For the company, this proliferation of choice demands a new marketing that is knowledge-based: the company masters the technology in which it competes, knows what its customers are up to and what its customers need and want. It is able to adapt to a changing environment.

Customers are unable to remember which advertisement pitches which product

This company also has to practice experience-based marketing. This requires the company to spend time with its customers - choice erodes loyalty.

In developing and adding products in a cooperative way, it also means giving superior service, promptly.

This customer orientation and contact is vital because it is becoming increasingly more difficult to connect with customers and potential customers in the traditional way, through advertising. "We are witnessing the obsolescence of advertising," McKenna writes.

Firstly, the proliferation of products has spawned a proliferation of messages: US consumers are deluged with 3,000 marketing messages a day.

The messages are also becoming shorter. In 1988, 38 per cent of prime-time and 47 per cent of weekday daytime television commercials lasted for only 15 seconds; in 1985 those figures were 6 per cent and 11 per cent respectively.

The number of prime-time commercials has risen by 25 per cent over the period. "A greater number of voices translated into a smaller impact. Customers are unable to remember which advertise-

ment pitches which product." McKenna cites an example of Ever Ready batteries. It has a critically acclaimed campaign in the US featuring a drearily marching rabbit. It was named one of last year's top commercials, but for Duracell, Ever Ready's main competitor. "In fact, 40 per cent of those who selected the ad as an outstanding commercial attributed it to Duracell."

Secondly, as advertising has proliferated, consumers have become fed up. Disney won friends among movie-goers by banning the screening of its films in theatres which screen advertisements. A Disney survey showed that 90 per cent did not want commercials and 95 per cent did not want to see previews.

The underlying reason behind both of these factors is advertising's little secret: it serves no useful purpose," McKenna says. "In today's

market, advertising simply misses the fundamental point of marketing - adaptability, flexibility, and responsiveness."

This is because the new marketing requires a dialogue - not a monologue. Feedback, which connects the customer to the company, is, he says, central to the operating definition of a truly market-driven company. A company that adapts to the changing needs of the customer.

McKenna's vision of the marketing of the future is one where technology and marketing are married. This will bring about a renaissance of R&D and marketing which will give the company the ability to explore new ideas and test them against the reactions of real customers in real time.

"It should be a vehicle for bringing the customer inside the company and for putting marketing at the centre of the company."

Marketing is Everything. *Harvard Business Review*, January-February 1991. Reprints tel: (The Netherlands) 31-3433-1941.

TECHNOLOGY

Intel's power punch

INTEL, the US semiconductor company, is preparing a counter attack against arch-rival Advanced Micro Devices' microprocessors. "clone", launched last November. AMD introduced its AM386 chip to compete with Intel's top-selling 386 microprocessor, the chip that powers IBM personal computers.

Intel's plan is to "unbundle" the 486, discarding everything but the processor core and putting the resulting chip in a low-cost plastic casing. Because of design improvements in the 486 processor, the cut-down 486 will outperform the top-performing 386 by 50 per cent. PCs with the new chip could sell for less than \$2,500.

The 486, as it presently exists, packs a number of functions into 1.2m transistors including the floating-point coprocessor, cache controller and 8 kilobytes of cache RAM.

So much power, however, has its drawbacks. The 486 is perceived to be overkill for most users' day-to-day personal computing. Sales of 486 PCs have been disappointing - only about 6,000 units were sold in the UK in 1990.

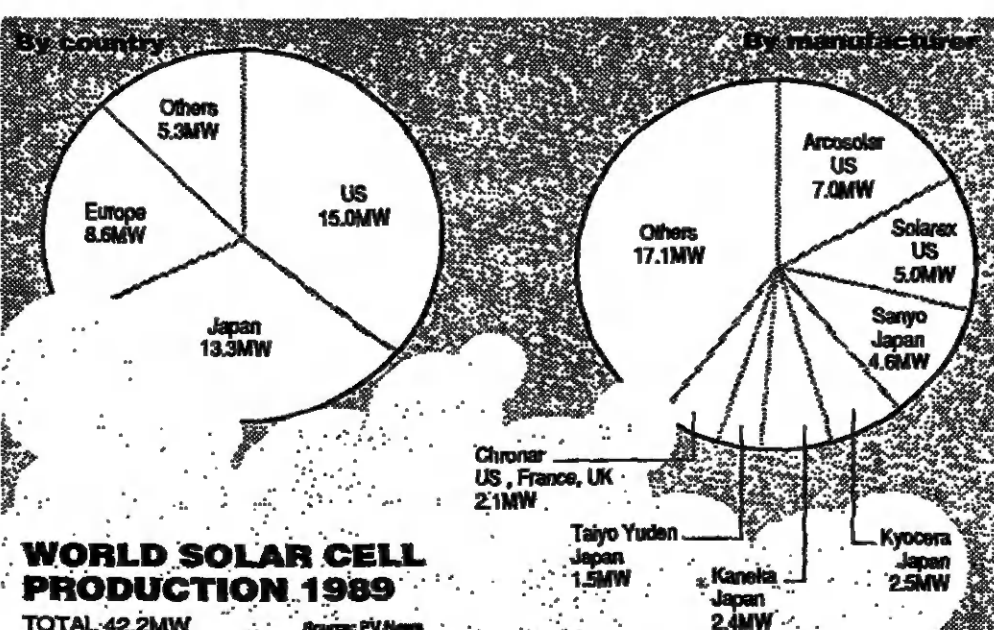
Intel's avowed strategy is to expand its technology both up and down the power scale from the point at which the technology is introduced, as it did with the 386 design - launched in 1985. The latest 386 version is a low-powered processor for notebook PCs.

As a past master of product differentiation, Intel would not want to adversely impact present 486 sales with the new. The company has suggested that rather than positioning the chip as a slower "486 minus" it could be regarded as a faster "386 plus". That would give a mid-life kick to the 386 range and see off AMD's 386 clones.

Paul Lavin

Ian Rodger analyses Sanyo's plans to capitalise on a long-term investment in solar cell-based products

Waiting for its day in the sun



WORLD SOLAR CELL PRODUCTION 1989

SOURCE: PV NEWS

ive. "The focus now has been the environment, not the high cost of oil," says Seiji Ohara, general manager of the group's R&D headquarters, and the horizon is looking much closer.

The main emphasis of Sanyo's research effort in the past decade has been on amorphous silicon (a-Si) solar cells. Until the 1970s, the only way to convert the sun's rays into electricity was through the use of crystalline silicon cells to achieve a photovoltaic effect. However, these cells are rigid, relatively bulky and their production consumes considerable energy and raw materials.

In the mid 1970s, scientists at Dundee University and at RCA in the US developed a solar battery based on a thin film of amorphous silicon. A few years earlier, Yukinori Kuwano, one of Sanyo's top researchers, had begun studying amorphous silicon nitride deposition by glow discharge. Once he learned of the developments in Scotland and the US, he realised that

this technique could be used as a method of mass producing a-Si solar cells with reasonable conversion efficiencies and at an acceptable cost.

The group made the world's first practical solar powered product, a pocket calculator, in 1980 and, with strong Japanese government financial support and close relations with researchers at Osaka University and the Tokyo Institute of Technology, has been developing amorphous silicon based solar cell technology ever since. Thanks to steady improvements in both material and production technology, the conversion efficiency of the amorphous silicon cells it makes has risen to over 11 per cent from 2.5 per cent in 1980.

Moreover, each improvement has brought more ambitious applications within practical reach, and Sanyo has been at the forefront of attempts to commercialise the technology. From calculators and solar powered watches, the group has moved on to produce

radios, battery chargers and other consumer products.

In the late 1980s, it brought out some heavier duty products, taking advantage of amorphous silicon's various characteristics. Being flexible, an array of amorphous silicon cells can be folded for storage and opened like a blanket to provide power for operating a television set or a small pump.

Sanyo also discovered that it could make the film transparent by punching several microscopic holes through the active area of the cells. Consequently, the thin cell fabric can be used for tinting windows, and Sanyo has proposed using it in car sunroofs where enough energy could be collected to operate some accessories.

Earlier this year, it was used for the skin of a totally solar powered aeroplane that flew across the US, but it is difficult to see this application getting beyond the gimmick stage. The aeroplane was restricted to a total weight of 90kg.

Similarly, Sanyo officials

doubt that a solar powered car they demonstrated this year can get beyond the golf buggy level. The solar cell delivered 41 watts at 13.5 volts to a nickel cadmium battery which could drive the car for 15.8 miles at full charge at a maximum speed of 8 miles per hour.

Perhaps the most promising new product line is a series of tempered glass solar roof tiles that produce 2.5 watts of power each. If used on the roof of an average house, the tiles could generate 3 kilowatts, enough to cover all home needs, at least during the day, the company claims. However, officials are still reluctant to be precise about the cost of such a system, which suggests that it is not yet competitive.

But all this is small beer beside Sanyo's promotion of a global electricity grid built around solar power stations and superconductor transmission lines.

The idea, which Sanyo calls Genesis (Global Energy Network Equipped with Solar Cells and International Superconductor Grids) may seem far fetched, but Sanyo officials claim it is not. They say that even if one assumes only a 10 per cent conversion efficiency for the solar cells, the entire world's estimated primary energy consumption in 1989 could be met by arrays covering only 807 square kilometres. "That is only 4 per cent of the world's desert areas," Kuwano points out. It would also do a lot for economies of scale in producing solar cells.

The complicating factor in the proposal, Kuwano says, is not the solar technology but transmission. Because different parts of the earth are in darkness at different times of the day, it would be necessary to transmit power over enormous distances from the areas in light to the areas in darkness.

Sanyo has proposed using superconductor transmission lines so that transmission losses would be minimal, but Kuwano admits that the technology is still a long way from being established. "But it might even be feasible using high voltage DC transmission lines," he says. He is now trying to convince Japan's Ministry of International Trade and Industry to embrace the project as part of its policy for promoting new energy sources.

But even without the Genesis project, the market for solar cell-based products probably has a pretty bright future, and Sanyo seems well placed to participate in it.

Blowing a trumpet for ultrasound

Scientists are starting to use the principle behind the dog whistle - ultrasound - to improve the efficiency of many commonly-used technologies.

The water industry, for example, hopes high-frequency sound might help purify drinking water and ease the problems with processing sewage sludge. "There is a lot of interest in this area," says Tim Mason, professor of chemistry at Coventry Polytechnic.

Ultrasound is already widely used to weld plastics. Most of the rear-light clusters in cars are formed with this technique. Ultrasound also improves the speed and quality of electroplating.

Household detergent companies are believed to be experimenting with sound in washing machines to improve their cleaning ability. The sound waves would reduce the quantity of soap, and therefore pollution, caused by detergents.

"Similar experiments in the late 1950s were unsuccessful because the pliable materials such as clothes, absorbent dampen sound. Researchers then tried lower frequencies but that made a lot of noise," says Mason.

Our ears hear sound from 16Hz to 16KHz (middle-C is at 261Hz). Beyond 16KHz and up to 500MHz is the ultrasonic range. We cannot detect sound in this range but some animals can, such as dogs and dolphins.

Scientists divide the ultrasonic range in two. Power ultrasound, which is between 20KHz and 100KHz, is used for welding plastic, encouraging chemical reactions and cleaning industrial equipment. High-frequency ultrasound - in the two to 10MHz range - is used for medical scanning and chemical analysis.

Ultrasound was first used early this century for range finding at sea. The idea - to determine distance by measuring the time it takes for a sound to bounce back (or echo) from a hard object - was developed into what became known as sonar.

This pulse-echo principle is behind most medical scanners, chemical analysers (many used to detect toxic chemicals) and the electronic tape measures used by estate agents.

with ultrasound the sound has the power to "tear" the water apart in a process called cavitation. This is similar to the effect that a propeller, say on an outboard motor, has on the water, producing little bubbles as it breaks the intermolecular forces binding the liquid. In ultrasonic cavitation, the sound waves create a cycle that causes the microbubbles to collapse almost instantaneously. This releases large amounts of energy," says Mason.

It is this energy, which generates pressure and temperature, that is being harnessed by industry. Electronics makers, for example, are beginning to replace washing techniques that use environmentally damaging solvents, such as CFCs, with machines that use soap, water and ultrasound.

The electroplating industry, a major producer of heavy-metal pollutants, has discovered that ultrasound has three benefits. First, it reduces the amount of time needed to plate an object. Second, it improves the quality of the plating by encouraging the metal to adhere more firmly. Third, it can be used to treat the effluent by improving filtration.

The water industry, which is faced with huge bills to purify drinking water and treat sewage, is interested in ultrasound. Besides enhancing the filtration process it can be used to disperse gases and solids in water and also help with collecting suspended solids.

These properties are helpful when dealing with sewage sludge, which often contains heavy metals from industry. It is usually dumped at sea and in landfill, or burnt. It contains many valuable nutrients for agriculture and could be treated as a valuable resource if the contaminants were removed. Ultrasound could prove useful in doing just that.

And ultrasound, which can be used to generate hydrogen peroxide (a disinfectant and bleach) when passed through water, has potentially useful purifying properties too. Used to purify water, it could reduce the amounts of potentially hazardous chemicals needed to clean drinking water.

Peter Knight

ARTS

CINEMA

Thrills and spills

HIDDEN
AGENDA
Ken LoachREVERSAL OF
FORTUNE
Barbet SchroederCYRANO DE
BERGERAC
Jean-Paul RappeneauNOI TRE
Pupi Avati

Of two new thrillers rooted in real events I know which one British critics are expected to take more seriously. *Hidden Agenda* is a political drama set in Ulster and directed by the white knight of British agitprop, Ken Loach. *Reversal of Fortune* is a high-society American whodunit which re-heats a ten-year-old murder trial. On film, with a thunder-roll of self-importance, "What is Britain doing in Northern Ireland?" The other asks, with catchpenny urgency, "Did Claus von Bulow try to kill his wife Sunny with insulin injections?"

In the event, *Reversal of Fortune* proves monstrous, memorable fun while *Hidden Agenda* is disappointingly bland. Scripted by the witty given out by the police, and the victim's widow (Frances McDormand) helps a top cop down in from Britain (Brian Cox) to start the investigation.

Heaven knows the plot premise is timely. And so are the questions about shoot-to-kill policies and conspiracies within conspiracies. The film starts off like a well-primed Wednesday Play, fuelled with moody photography and electronic music by Stewart Copeland. McDormand is movingly harrowed as the widow, and there is grim hilarity in the quarrels between Cox's bull-

necked investigator, veins lined with dynamite, and Jim Norton's Ulster police chief, trying to cover everything in sight.

But soon we realise where we are heading: the All-Purpose Paranoia Zone. Instead of developing a story in which a little local difficulty is revealed inch by inch as the tip of a social-political impasse, Loach and Allen jump impatiently to their facile conspiracy scenario. After a mid-film flurry of signposted dialogue, cloak-and-dagger trysts and Republican singalongs with messages for the semi-dead - "You brought this reign of terror to our land" - we come to the most earnestly lunatic chapter.

Here Tory toffs with names like Alec Nevill (no prizes for guessing the film's politician who had identical initials) are wheeled into smoke-filled rooms to confide their wicked secrets to Mr Cox. Hisable epigrams join the pipe-smoke and the air of "Ireland would be lovely place if it weren't for the Irish" - while we hear of Wilson-toppling schemes, M15-CIA link-ups and Thatcherite enormities. It may be good melodrama; it may even, years hence, be verifiable history. But it is the rest of the film like an elephant balancing on a gaff. Along with the mid-Atlantic casting, the film's frantic upping of the narrative ante suggests Loach had one ear and eye on the American market when he should have had both eyes and ears on doing detailed, honourable justice to a tragic province.

If *Hidden Agenda* is overcooked, *Reversal of Fortune* could have spent another half-hour in the cinema. We like our clips at the early smells coming from the kitchen. In Newport, Rhode Island, a European aristocrat (Jeremy Irons) is sentenced to 30 years for the attempted murder of his wife (Glenn Close). A hyperkinetic Jewish lawyer (Roy Silver) assembles a multi-expert task force to appeal the verdict. And the movie's first real flashback is introduced in voice-over not by Mr Irons but by the terminal, comatose Miss Close. Not since William Holden in *Sunset Boulevard* can I recall a dead, or brain-



Monstrous fun: Jeremy Irons and Glenn Close in 'Reversal of Fortune'

dead, character narrating a movie.

Directed by Barbet "Barfly" Schroeder and scripted by Nicholas "Patty Hearst" Kazan, the film dances delightfully around its trash-based premise. Claus von Bulow, he of the alleged smoking hypodermic. Ever since *The Mission*, Jeremy Irons has been showing signs of kicking off his goody-two-shoes roles and trying on size-12 grand guignol. First *Dead Ringers*, now this. Irons's von Bulow is a pale, drawing, poker-backed toff with thin hair scraped back over his scalp and a thin wit scraped over his sepulchral vowels.

He and the underused Glenn Close, all icy dudgeon and pill-popping tremolando, are sheer delight. Indeed the film's only error is to have given us too little of their flashback-recreated home life, in which the two strike sadomasochistic sparks as their marriage emburs die.

Instead we pad more pedestrianly in the wake of lawyer Alan Dershowitz (Silver), on whose book the film was based. Since the legal ingenuities of his appeal case, grippingly detailed in print, have had to be trimmed into bite-size portions for the film, we keep crying "Oh forget the lawyers and return us to the marriage bedlam." But then caution was perhaps inevitable in approaching a story whose real-life "murderer" and "victim" are still alive to this day.

Watching Jean-Paul Rappeneau's film version of *Cyrano de Bergerac*, I kept being reminded of the clinical term used to describe Sunny von Bulow's condition: "persistent vegetative." At any point dur-

ing this 2½-hour ordeal by verbalisation, you could have dug me out of my seat with a garden spade and sold me to the nearest greengrocer. I do not dislike Edmond Rostand's original play about the romantic power with the extent of it. I dislike the idea of yards of unprocessed proscenium verbosity being inserted into a pictorial medium like cinema.

Gerard Depardieu, with biotic booster, prances about the 17th century French spaces mimicking the great actor he might well be without strain in the right vehicle. Although at times a scene takes on its own witty cinematic life - as when the two strike sadomasochistic sparks as their marriage emburs die.

On cue for the year of Mozzamania, alias Mozart's biocentenary, comes Pupi Avati's evocative *Il silenzio*. In this recent review of Alan Parker's *Come See The Paradise*. It was not the total number of military casualties suffered on December 7th, 1941, that exceeded America's equivalent losses during World War I. Men culpa.

Nigel Andrews

London Philharmonic

BARBICAN HALL

On Tuesday Leon Botstein, who is an inquiring academic polymath as well as a conductor, took the LPO through an odd programme: first a recent symphony by a fellow American academic, then Joseph Joachim's all-but-forgotten Violin concerto in the Hungarian manner, and finally the First Symphony of Brahms. It was oddly satisfying, too - the rare kind of programme in which the whole has a sense of its own, and doesn't just play off its parts for contrast.

Richard Wilson's First Symphony dates from a London seasonal in 1983-4 (when I was much taken with some clarinet duos of his in a Circle concert). In this first UK performance, its principal attractions seemed to lie in its clever, effervescent writing for high winds, and its harmony, which in the concert series consistently original but also transparent, without Expressionist crunches, very discreet about its tonal roots. At almost a half-hour's length, however, the work hardly seemed to fill out a "symphonic" scale. Wilson's accurate movement-la-

bels - simply Preparation, Action, Contemplation and Reaction - denote a flutery, tantalising prelude that introduces a bright scherzo, and then a slow movement of moderate expressivity, densely answered by a crisp scherzo finale. Civilised, one thought, but not quite 23 minutes' worth.

Crisper might have been better. I suspect that Wilson was imagining a clean, hard-edged brass-attack in the American manner, which British players scarcely ever manage to copy; that might give a sharper bite to the scherzo-music. But perhaps Joachim had had the lion's share of the LPO's rehearsal-time, since they are recording a whole Joachim programme. Here his "Hungarian" violin concerto is played by Elmar Oliveira (the Chalkovsky Gold Medalist in 1978), especially its absurdly virtuosic finale. The opening Allegro, with a campy main tune quite close to Kodaly's *Háry János* overture (one might call it a parody), is, though turgidly orchestrated - too cluttered for the

"colourful" but bland material; the *Romanze* is a winsome archetype of Good German Taste between Schumann and Brahms.

It was fascinating to hear, particularly since the programme-notes reminded us that by the time Joachim came to assist Brahms with the composition of his violin concerto (1875-79), he had given up his own compositional ambitions. Botstein's reading of the Brahms First, after the interval, then reminded us exactly why. Out of sheer familiarity, many conductors feel bound to load this symphony with idiosyncratic tricks; Botstein brashly none, but ensured that all Brahms's genuinely original strokes - the ones that his contemporaries, like Joachim, would have recognised as marks of a new master-composer - made their pristine effects. It was properly swift and lithe, too, without any modern-sentimental mooning, and a tonic to bear, and in the aptest possible way.

David Murray

Monet puts the RA into the black

The Monet exhibition at the Royal Academy, which closed last month, fulfilled all its organisers' dreams. It attracted the largest daily post-war attendance to the RA - just on 7,000 - and it produced a profit of around £1m, which has enabled the RA to pay off its £250,000 overdraft, replenish its valiant Endowment Fund, and bail out the under-subsidised show devoted to Egon Schiele and his contemporaries. For Monet tickets could be bought in advance from agencies, and a third of the visitors came by this route. In future all RA shows can be pre-booked.

All told almost 860,000 people saw the Monet "series" paintings which compares with total RA attendances for the year ending last September (which included three weeks of Monet) of 866,311. Even before Monet the fortunes of the Academy had started to improve. After a £550,000 loss in the year ending September 1989, the next twelve months produced a £100,000 profit, thanks partly to a 21 per cent increase in attendances for exhibitions and partly to cost savings.

The RA's programme for 1991 includes nothing on the

scale of the Monet but provides a strong overall schedule. The public's thirst for post-impersonism should be satisfied with the works by Manet, Cézanne, Gauguin, Van Gogh etc from the Bührle collection of Zurich which opens on February 1. Then on March 8 the RA's renewed enthusiasm for architecture finds vent in an exhibition devoted to Christopher Wren and the making of St Paul's.

After the Summer Show, from June 8, come attractive exhibitions devoted to Fauve landscapes - by Matisse, Derain, Braque, etc (from June 18), followed by the first important display of Pop art in London for two decades, from September 14. The year ends with a comprehensive show devoted to the famed Japanese print maker Hokusai, and 1992 opens with a rare Old Master show, of Mantegna.

The big event of the REA's year is the unveiling of the renamed Sackler Galleries (formerly the Diploma), on June 10. The rebuilding opens up a Kingston House and greatly improves facilities for the public.

Antony Thorncroft

Children of Eden

PRINCE EDWARD THEATRE

And God looked and saw that it was - a musical.

Author-director John Caird and composer-lyricist Stephen Schwartz have turned the book *Genesis* into *Children of Eden*, the new three-hour musical. Starting with the Creation and the Garden of Eden, it proceeds, by way of the Tree of Knowledge and Cain and Abel, to Noah and the flood. When you think how long ago it was that musicals tackled the New Testament (Schwartz composed *Godspell*), you wonder why they waited so long before coming to *Genesis*. The story turns out to have just what the modern musical needs: enigma, the generation gap, sentimentality, idealism, good versus evil and young love versus parental authority; and, best of all, special effects.

To me, the modern musical is not an important form of lyric theatre but primarily an exercise in audience manipulation. *Children of Eden* is a skillful example of this. It steers its course neatly between serious and light, between provocative and cosy, between grand and intimate. It poses smoothly some of the theological questions which have fretted us all in our time. Why, for example, did God give Adam and Eve curiosity in the first place? It doesn't quite preach that ignorance was bliss; Nor does it, by telling his children to use the fruit of the Tree of Knowledge. But it says the word "civilisation" with a hiss, like "sin."

Children of Eden is

excellently staged - what's a musical without staging these days? - and it doesn't rest on spectacular scenery. John Caird has made one basic set that serves by turns as "this goody frame, the sky", by turns it is the firmament, the garden, an aviary, and more. The best aspect of the production is its visual effects, some of them achieved with piercing and poetic simplicity. I cite a few: Adam and Eve, after eating the apple, standing amid a maelstrom of surrounding movement as if

lashed to the mast; their walking backwards out of the Garden; the two-day waterfall of spray discovered by Cain; the beautifully flying cloth dove; the unrolling reams of rainbow. Matthew Bourne's choreography (though minor-league beside his work for *Adventures in Motion Pictures*) is surely as deft as any in the West End today, and the slick dance for the seven-man snake is the wittiest part of the show.



Frances Ruffelle and Anthony Barclay
Children of Eden

Schwartz has provided a wide range of songs: ballad, rock, jazz, spiritual, and more. Every item works efficiently on the audience and every item sounds like a unique, other essays in the same genre. The weakest aspect of the show is the words, in both speech and rhyming lyrics. "Oh God! Look what I've done," sings Eve, as Cain shows signs of being a Problem Child. "I've passed it to my son."

The cast is multi-racial, and sings in accents both English and American. The singing is a good example of modern West End style. Martin Smith, as Adam, has a light tenor and a splendid pair of pees; Earlene Bentley, as Mama Noah, leads a vigorous spiritual (good for the audience) about the flood. The clearest singing is by the Japheth of Anthony Barclay, and the prettiest face that of Frances Ruffelle as his gal Yonah.

Alastair Macaulay

The Fever

THEATRE UPSTAIRS

With *Ami Dan* and *Lemon*, his Royal Court play of 1985, Wallace Shawn proved himself a master of emotional syllogism, arguing through the person of an unearthy anorexic that the extermination of millions of Jews was merely an extension of man's cruelty to cockroaches. In his monologue *The Fever*, the syllogist no less shockingly is a personification of the wealthy West: a materialist whose creed is founded on an unshakable belief in the right to have, and hold, privilege.

A tortuous route via the failure of Communism, a tourist's observation of the brutality of "poor" countries, and his rumination on charity at home brings him to the "inevitable" conclusion that violence is essential to the suppression of violence in the interests of a wholly justifiable status quo. After all, "it's appropriate for

you to have the share of things that you have, that means it's not inappropriate for all the others to have the share that remains."

This disturbing 90-minute piece, a first venture into co-productivity by the National Theatre and the Royal Court, was first performed in a series of private homes in the United States where its fractured logic must have furnished the starting blocks for many a runaway after-dinner debate.

Rather like Vaclav Havel's *Vanek* plays, which have similar origins, it is a think piece which dramatises the doubts of the dissident. But whereas Havel could externalise the debate by creating little dramas of observer and observed, Shawn's debate has only his own conscience to gild.

The disintegration of Communism has left no formal

opposition. The politics of South America are anecdotally dismissed through the memory of a girl revolutionary clinging to her Marxism in a cafe in an unnamed "poor" country where workers had been raped and buried under the "orchards of unsurpassed beauty."

Sitting piggy-eyed in the beam of a single light, Shawn is a compelling raconteur who evokes a naive intellectual excitement, spiked with a moral revolution which rises in his gorge as he gropes towards a recognition that his complacency is based on a fallacy. The persona is comic, but the subject matter deadly earnest. As with *Ami Dan*, one can forgive the overwriting and the occasional longwindedness for the vigor and audacity of the vision.

Claire Armitstead

The Nutcracker

COVENT GARDEN

The role of the Sugar Plum Fairy in Ivanov's original *Nutcracker* is as sweet and insubstantial as the non-character whom it portrays. The part amounts to a pas de deux, an enduring and nourishing as the confection itself, and some gestures to indicate general benevolence. It was Alicia Markova who taught us that classic distinction and spun-sugar delicacy might make the Sugar Plum more rewarding an seemed possible. And on Tuesday night it was Doreen Bussell who showed how a young dancer may similarly hold us by the combination of radiant youth and physical grace.

During the past year - since her creation of the heroine in *Prince of the Pagodas* - Miss Bussell seems to have found herself gloriously as an artist. Immense promise has ripened

into assurance - never bold or self-conscious, but innocently and generously true. There is a purity to her dancing which comes from technical ease (she is a treasure even on the most obvious terms of ballet's mechanics) and from a central honesty in her interpretations. There is nothing in her stage presence of a personality cult - Guileless-style - or of vulgarity. There is everything of integrity and a devotion to the task in hand, and an ability to transform her youthfulness into the essential matter of the choreography - witness her profound sincerity as the Woman in *Song of the Earth*.

As the Sugar Plum Fairy - with Irina Mukhamedov the ideal cavalier - Miss Bussell was joyous, serene in articulation, and performing with a gentle authority that tells us

that she wears her ballerina crown with beguiling modesty. She was grand without pomposity, noble without hauteur. She conveyed, above all else, her delight in dancing, and certain subtleties of phrasing - an extension that opened delicately out; a balance held so that we gasp with pleasure - spoke of an artist of rare sensibilities. These are wonderful times for her, and for her public.

Mukhamedov's Prince had all the allure, in step and manner, the role demands. David Bintley was a Drosselmeyer tenderly caring and touched with the proper mystery. Philip Mosley's engaging Nutcracker, Christina Arstis' delicate Clara, added to the pleasures of a memorable performance.

Clement Crisp

INTERNATIONAL
ARTS
GUIDE
TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Neeme Jarvi conducts Royal Concertgebouw Orchestra in Stravinsky and Mendelssohn, with Boris Berman as soloist in Bartok's Piano Concerto No. 3 (718345). Repeated tomorrow in Amsterdam and on Sat in The Hague

BERLIN

MUSIC
Staatsoper unter den Linden 19.30 Ariadne auf Naxos. Sat. Alcina (2004 762) Komische Oper 19.00 Die Entführung aus dem Serail, staged by Harry Kupfer. (2292 565) Deutsche Oper 20.00 Rigoletto, with George Fortuna in title role. Tomorrow: Aida with Julia Varady. Sat. Ruggero Raimondi sings Don Giovanni. (3410 248) Schauspielhaus 20.00 Fabio Luisi conducts Berlin Symphony Orchestra in Rossini, Tchaikovsky and Sibelius, repeated tomorrow and Sat (2272 261) Philharmonie Kammermusiksaal

20.00 Simon Rattle conducts Berlin Philharmonic Orchestra in Ravel and Haydn, with Imogen Cooper soloist in Mozart's Piano Concerto No. 27. Repeated tomorrow and Sat (2614 383)

THEATRE
Berliner Ensemble 19.00 The Threepenny Opera. Sat. Kleist's Prinz Friedrich von Homburg. Sun. An evening with Kurt Weill (2827 712) Deutsches Theater 19.30 Strindberg's Totenkunst (2671 225) Maxim Gorki Theater 19.30 Peter Shaffer's Amadeus, also Sun (2062 783) Schiller Theater 19.30 Schiller's Die Rauber (3195 236)

BONN

Beethovenhalle 20.00 Shyua Okatsu conducts Orchestra of the Beethovenhalle in Mozart, Tchaikovsky and Prokofiev (773686)

BRUSSELS

Palais des Beaux Arts 20.00 Jose van Dam sings Kindertotenlieder in all-Mahler programme with Belgian National Orchestra under Ronald Zollman (507 8200)

COLOGNE

MUSIC
Philharmonie 20.00 Giuseppe Sinopoli conducts Schoenberg's Verklärte Nacht and Bruckner's Fourth Symphony with the Philharmonie Orchestra (2801) THEATRE
Schauspielhaus 19.30 Teatro del Carretto, Lucca, in Italian-language

staged version of Homer's Iliad. Also tomorrow and Sat (281 8400)

DRESDEN

Schauspielhaus 19.00 Moliere's Tartuffe. Sat and Sun: Goethe's Faust (4842 731) Kulturpalast 20.00 Kurt Sanderling conducts the Dresden Staatskapelle in music by Mozart and Mahler. Repeated tomorrow (4842 731)

FRANKFURT

Alte Oper 20.00 Dmitry Kitayenko conducts Frankfurt Radio Symphony Orchestra in music by Tchaikovsky and Ravel, with Vladimir Kravtsov soloist in Prokofiev's Third Piano Concerto. Repeated tomorrow. Sat: Heinrich Schiff conducts and plays cello solo in concert with Deutsche Kammerphilharmonie. Sun: Leit Segerstam conducts Mahler's Sixth Symphony (1340 400)

HAMBURG

Staatsoper 19.00 Gerd Albrecht conducts Alfred Kirchner's staging of Idomeneo, with a cast led by Josef Protschka, Roberto Alexander and Hedwig Fassbender (351555) Deutsches Schauspielhaus 19.30 First German staging of Ayckbourn's Man of the Moment (248713)

LEIPZIG

Gewandhaus 20.00 Kurt Masur conducts Gewandhaus Orchestra in music by Prokofiev and

Tchaikovsky, also tomorrow (7132 252)

LONDON

MUSIC
Coliseum 19.00 David Pountney's production of Pellaea and Melisande conducted by Mark Elder (836 3161) Queen Elizabeth Hall 18.00 The Ring Saga Part Two. City of Birmingham Touring Opera's (reduced version of Wagner's Ring (828 8800) Barbican Centre 19.45 Carmina Burana with London Symphony Orchestra conducted by Richard Hickox (638 8991)

DANCE
Covent Garden 19.30 Royal Ballet production of The Nutcracker. Sat at 11.30: Viviana Durante dances Kenneth MacMillan's Manon (240 1066) Royal Festival Hall 19.30 English National Ballet production of The Nutcracker. Runs till Sat (928 8800)

THEATRE
This week's shows include Pinter's The Homecoming directed by Peter Hall (Comedy), David Hare's Racing Demon and Ian McKellen in Richard III (National), Anouilh's The Rehearsal (Garrick), Ayckbourn's Absurd Person Singular (Whitehall), Miss Saigon (Orury Lane), Phone Theatre: Plays 0836 430599 Musicals 0836 430590 Comedies 0836 430591 Thrillers 0836 430592

MUNICH

Staatsoper 19.00 Un ballo in maschera with Aprile Millo and Maschera Aragal. Tomorrow:

Giselle. Sat: The Love for Three Oranges. Sun: Die Fledermaus (221316) Philharmonie 20.00 Viktoria Mullova plays Brahms Violin Concerto with Bavarian Radio Symphony Orchestra conducted by Colin Davis (48098 614)

NEW YORK

MUSIC
Avery Fisher Hall 20.00 Charles Dutoit conducts New York Philharmonic in Schumann, Kodaly and Dutilleul's Cello Concerto, with Lynn Harrell. Also tomorrow, Sat and next Tues (874 2424) New York State Theatre 20.00 City Ballet in Jerome Robbins' Dances at a Gathering and two Balanchine ballets, Walpurgisnacht and Who Cares? (870 5570) Metropolitan Opera 19.00 First night of new production of Die Zauberflöte conducted by James Levine Tomorrow: Boris Godunov (922 6000)

THEATRE
This week's shows include Assassins, new musical by Stephen Sondheim (Playwrights Horizons), City of Angels, musical about Hollywood in the 1940s by Larry Gebhart (Virginia), Black and Blue, an evening of classic jazz and blues with tap dancing (Minskoff). Ticketron (239 8200) answers inquiries and sells tickets

PARIS

Opéra Bastille 20.00 Myung-Whun Chung conducts all-Mozart programme with Opéra orchestra, also Sat. Tomorrow: Le nozze di Figaro (4001 1818)

Théâtre des Champs-Élysées 20.30 Shlomo Mintz is conductor and soloist all-Mozart programme with Israel Chamber Orchestra (4720 3637) Salle Pleyel 20.30 James Conlon conducts Orchestra de Paris in Schubert and Mahler. Also Sat at 16.30 (4553 0796)

VIENNA

Staatsoper 19.30 Der fliegende Holländer with Elizabeth Connell and Bernd Weikl. Tomorrow: Tristan und Isolde with Behrens and Kollo. Sun: Carmen with Beltsa and Carreras (51444 2960) Volksoper 19.00 Don Giovanni sung in German. Tomorrow: La Caga aux Folles (51444 3318) Musikverein 19.30 Vaclav Neumann conducts Vienna Philharmonic Orchestra in Spohr, Weber and Beethoven. Repeated tomorrow (505 8190) Konzerthaus Grosser Saal 19.30 Sándor Végh conducts Vienna Chamber Orchestra in all-Mozart programme, with Cyprien Katsaris piano. Mozart-Saal 19.30 Recital by Arleen Auger accompanied by Roger Vignoles (7124 8860) Telephone sales of tickets for Staatsoper and Volksoper available worldwide for holders of credit cards by ringing Vienna 5131 513

WASHINGTON

Kennedy Center Concert Hall 20.30 National Symphony Orchestra conducted by Randall Craig Fleischer play Sibelius, Dvorak and Borodin. Also tomorrow and next Tues (467 4800)

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1540-1610 Moneyweek
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Thursday January 10 1991

No progress in Geneva

FOR THE last five months, it has been hard to see a good outcome from the confrontation in the Gulf following Iraq's unacceptable invasion of Kuwait. But there has never been any real doubt that war would be a disaster with incalculable consequences.

Regrettably, war now seems more likely following the failure of yesterday's discussions in Geneva between Mr James Baker, the US secretary of state, and Mr Tariq Aziz, the Iraqi foreign minister.

Mr Baker had a sombre message. After more than six hours of talks, he said he had heard nothing that suggested any Iraqi flexibility. Iraq, in other words, is not offering to withdraw from Kuwait in compliance with UN resolutions.

Mr Baker went into the meeting armed with a threat and a promise from President Bush: the multinational alliance in the Gulf is ready to attack Iraqi forces if they do not withdraw from Kuwait by the UN deadline of January 15, but Iraq will be left alone if President Saddam Hussein orders his troops to pull out.

Mr Baker came out of the talks with the same threat and the same promise. Although his mood was gloomy, he continued to say that Iraq could avoid a war by pulling out. "The path of peace," he said, "remains open." He backed that up by suggesting that Mr Javier Pérez de Cuellar, UN secretary general, could use his good offices to keep a dialogue going.

One concession

By making his promise not to attack if Iraq withdraws, in his letter to Mr Saddam (which Mr Saddam has refused to receive), Mr Bush had already made a concession to the man who ordered the invasion and annexation of a member state of the UN on August 2 last year. Mr Bush is limiting the alliance's aims to the UN objective of achieving a complete Iraqi withdrawal. The US may not like the Iraqi regime or its numerous weapons programmes, but it will not launch a military strike against Iraq if there is a complete withdrawal.

It seems unlikely that Mr Baker was prepared to offer much else in Geneva in the

way of concessions. France and Germany, and the European Community as an organisation, have sometimes seemed willing to go further in offering carrots to Iraq before the UN deadline expires. Along with Mr Pérez de Cuellar, they will doubtless do everything they can in the cause of peace following the failure of the Baker-Aziz talks. The Europeans should be careful. As January 15 approaches, they should not undermine the coalition ranged against Iraq, and like Mr Bush, they should limit themselves to the UN resolutions.

There is no reason to object to last-minute European peace efforts in the Gulf or to attempts to resolve other conflicts in the region, provided the Europeans insist on a complete withdrawal by President Saddam, refuse to grant him a reprieve for his aggression, and do not glibly take him at his word if he makes vague promises to pull out his troops. An actual withdrawal — or at least the start of one — is what is required. The Iraqi leader is an accomplished liar, as he demonstrated shortly before the invasion when he promised King Fahd of Saudi Arabia and President Mubarak of Egypt that he would not invade. The Arab members of the alliance have not forgotten that, any more than the Kuwaitis will easily forget that Baghdad announced a withdrawal the day after the invasion, but then went back on its word.

"We welcome any and all diplomatic initiatives to solve this crisis peacefully and politically," Mr Baker said yesterday, "but the message should be uniform." That is fair advice for the Europeans and any other aspirant intermediaries.

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The case for training

THE GOVERNMENT'S commitment to improving the skills of the British workforce has been a constant theme for a decade. As the recession deepens, employers are again facing hard decisions over whether to maintain expenditure on training. If the government advocates its share of the responsibility, it will inflict further damage on Britain's inadequate investment in training.

Yet there is little evidence, beyond its marketing of training to employers, that the government accepts, or even understands, its responsibilities. True, it has established a local employer training programme for the adult unemployed in return for accepting reduced funding. They now face the alarming possibility of having to do no more than supervise a wave of relief schemes for the growing number of unemployed. Training programmes for changing the whole culture of training will inevitably suffer.

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The collapse of the Tec framework would extend the long history of failure to address Britain's training inadequacies. The government must re-establish targets for raising workforce skills, so demonstrating to employers that the recession will not be allowed to undermine the efforts of the past year. Mr Howard has already promised to respond to an independent effort by the CBI to establish agreed targets for skills, which could be put in place by the middle of this year. But beyond this, the government should re-think the basis of its approach to training. It must, for example, establish new economic incentives for employers to train rather than poach. The Labour party's suggestion of a national training fund to which all employers who refuse to train must contribute a proportion of their payroll is one constructive idea. Mr Heseltine has thrown a local government finance open to cross-party discussion. The UK's dismal training record is an equally worthy case for such treatment.

the private sector. Despite earlier hopes, the private sector chief executives who lead Tec have not formed a strong enough political lobby to influence the Treasury, which regards public training schemes as, in essence, unemployment relief. Tec leaders have been offered freedom to tailor the damage on Britain's inadequate investment in training. Yet there is little evidence, beyond its marketing of training to employers, that the government accepts, or even understands, its responsibilities. True, it has established a local employer training programme for the adult unemployed in return for accepting reduced funding. They now face the alarming possibility of having to do no more than supervise a wave of relief schemes for the growing number of unemployed. Training programmes for changing the whole culture of training will inevitably suffer.

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Whenever a view becomes conventional wisdom it is time to question it. An example is the supposed world shortage of capital.

There have indeed been changes which will tend to increase the demand for new capital relative to the supply of savings. There are the needs of reconstruction both in eastern Germany and the rest of the former communist world. In the former case this will reduce to vanishing point the savings surpluses a united Germany can make available to the rest of the world. Japanese growth and Japanese savings are also under pressure. Yet there have been no compensating structural rises in savings propensities in the rest of the western world.

The diagnosis overlooks, however, short-term forces making for world recession. These arise partly from the earlier tightening of monetary policies in many countries to counter the re-emergence of inflation. They have been powerfully reinforced by the so-called "credit crunch", that is, the bad debts and corporate insolvencies which have made banks and other financial institutions more reluctant to lend at any given rate of interest. Moreover, the need for capital reconstruction in eastern Europe, and even more the Soviet Union, is proving slower to materialise in the form of viable investment opportunities than the optimists supposed.

In any case the predominant

The much-vaunted international payments imbalances are disappearing

worldwide trend is towards recession; and in a recession interest rates fall. Thus, while the recessionist wisdom is that German interest rates will increase and pull up those of the rest of the world and especially Europe, this is no more than a temporary possibility for the early part of this year. The pattern would then be "First a rise, and then a fall" to a rhythm from a Strauss operation, as Tim Congdon, with whom I am happy for once to agree, remarks in the Gerrard & National Review. Recessionary forces in the rest of the world are likely to slow down the boom in Germany, which has a smaller weight in the global economy than its influence in Europe suggests.

One would not expect signs of falling European interest rates while Gulf tensions are at their present level. But oil prices have been far below those of last autumn, when they touched \$40 per barrel. Their tendency to plunge at the slightest whiff of a peace rumour shows how far they are above any normal market equilibrium. Even before such rumours the level of oil prices signified a market belief that any conflict would fail to knock out the main Saudi oil installations.

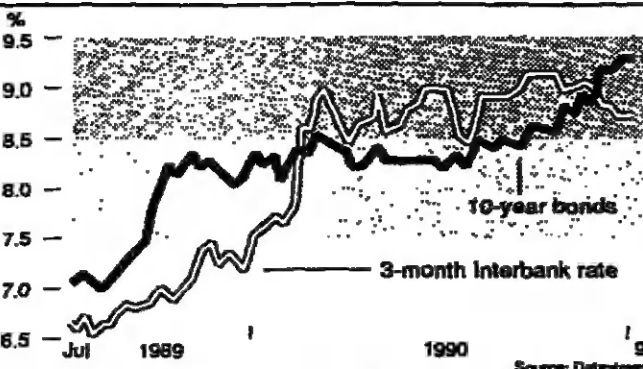
Meanwhile, the combination of Middle Eastern tensions and the threatened crumbling of President Gorbachev's USSR has made the D-Mark slightly less attractive, as well as

ECONOMIC VIEWPOINT

A shortage postponed

By Samuel Brittan

German interest rates



increasing the attraction of the dollar as a safe haven. These external forces plus endless British official repetitions of the no-devaluation theme have strengthened sterling a little, and it is no longer the weakest currency in the ERM. The relief is only short-term, but it will at least buy a little time for the chancellor, and brings in sight the prospect of modest interest rate cuts by around Budget time with larger ones later if ERM credibility can be maintained.

What would we expect to see in the world's main financial markets if a recession takes place in the context of a longer-run shortage of savings relative to investment opportunities? Surely a fall in short-term interest rates, with long-term interest rates remaining fairly sticky and falling only modestly.

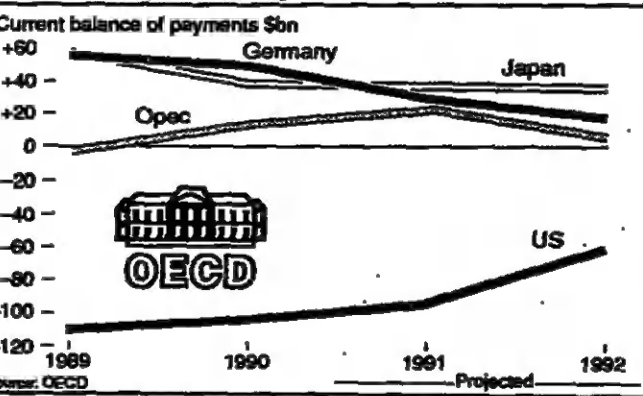
The drop in short-term interest rates is still to come outside the US. But at the long-term end we have already seen bond rates in the US and Germany converging towards the 8 per cent to 9 per cent band, while Japanese rates, at about 7 per cent are a couple of percentage points above 1989 levels. A jump was especially noticeable in Germany, where long-term rates rose by 1½ percentage points around the time of the breach of the Berlin Wall. The more policy-influenced short-term rates rose much later, and, in envisaging

lower rates later in 1991, I am several steps ahead of anything the Bundesbank cares yet to contemplate.

The Bundesbank president, Karl Otto Pöhl stuck firmly in Basle this week to the line: "There is no room for lower interest rates in Germany because of the huge budget deficit." The debate in the Bundesbank is between those who expect interest rates to increase and those who believe they might remain approximately stable. A supposedly technical problem is the "Lombard trap" created by the tendency of the normal gap between the Bundesbank's Lombard lending rate and market rates to disappear as market rates rise. This might be resolved by a floating Lombard rate combined with lower reserve requirements for the banks — technical devices which will not resolve the policy problem of how much liquidity to put into the market.

In general, I found the atmosphere on a stopover in Frankfurt much less hawkish than I expected from the mood of the financial markets. One of the most zealously anti-inflationary figures in the Bundesbank envisaged that German wage increases would not go above an effective 6 per cent per head in 1991. Productivity might rise by 2½ per cent; and there could be some squeeze on margins. He therefore did not

The disappearing imbalances



Mystery title fight

■ Are heads of building societies allowed to style themselves group chief executives?

It may not seem a life and death question, but a whisper ran through the industry this week that the Building Society Commission, Michael Bridgeman, is displeased with the practice and wants it stopped.

Two years ago Bridgeman — dubbed "the headmaster" by the industry — put some members of his brood to a great deal of expense by decreeing that the magic words "building society" must be included alongside a society's name on all its stationery and publicity material. Alarmed by reports of a ban on group chief executives, Donald Kirkham, group chief executive of Woolwich, rang the Commission, but was told that his title was okay.

As far as we understand it, the objection applies only to the title *joint* chief executives," explained a deputy chief executive at another society.

But he begged anonymity for fear the headmaster might expel the odd deputy too.

New world

■ Le Monde, France's distinguished daily newspaper, has just broken with a hallowed tradition. The break came when its journalist shareholders agreed for the first time to work under a director from outside their own profession.

He is Jacques Lesourne, a 63-year-old Parisian economics professor and former businessman, who will take over when André Fontaine retires in a few weeks time. Although not a journalist like his four predecessors since Le Monde started in 1944, Lesourne has something in common with the first of them

OBSERVER

— founder Hubert Beuve-Méry, who began his career as an academic.

The incoming director also has respectable writing credentials. He has 18 learned books to his name.

What will be most important in his new job, however, is his wide-ranging contacts with French business leaders. Le Monde faces a tough future. The authoritative image it had in its heyday has faded, and it is approaching the recession overmaned and with worryingly high borrowings. The paper expects a FF10m-20m loss for 1990, and a larger one this year unless it sheds 200 of its 1,200 staff and cuts costs all round. Lesourne says returning to profit is one of his priorities. He also intends to set a firm development plan, reform the paper's archaic legal structure and ensure a crisis-free succession when he retires.

Runciman ahoy

■ Andrew Weir & Company, one of the UK's few sizeable private shipping companies still afloat, has run out of Weir.

Vincent Weir, grandson of the company's Scottish founder, is stepping down as chairman in order to devote more time to his real love — protecting endangered wildlife. Meanwhile his nephew, Lord Inverforth, who inherited the family title, seems more interested in academia, than life on the ocean waves. Fortunately, Vincent Runciman, who has been looking for a berth since his own shipping company was taken by Swedish pirates in 1989, has agreed to take the helm. As he is a Cambridge don and a deputy chairman of the Securities and Investment Board, there must be some concern about how much time Garry Runciman



"I forget whether I'm a Latvian or a Lithuanian deserter."

can devote to a group which has no formal chief executive. This may explain why the Weir board has also been strengthened by the appointment of Anthony Isaacs, senior partner of City lawyers, Stephenson Harwood, and an old friend of the family.

Solid

■ Where are Mrs Thatcher's colourful entrepreneurs? Yesterday, saw Sir Ian MacLaurin, chairman of Tesco, win County NatWest WoodMac's retailer of the year award — another telltale sign that the men in grey suits are moving in to the pole positions of commerce as well as politics. Allstar Grant and Geoff Mulcahy, the two runners up, are equally solid managers rather than colourful traders. Not that Sir Ian has done a bad job at Tesco, which seemed to be sliding downhill at an alarming pace in the 1970s. He has transformed the old "pile 'em high and sell 'em cheap" image of Sir Jack

expect underlying inflation to rise much above 3 per cent. Moreover, the recession in Germany's partners is proving positively helpful in dampening demand, releasing resources for reconstruction in the east, and boosting the D-Mark.

The proclaimed key to Bundesbank actions is the national budget, and the Bundesbank is happy to line up with Germany's EC partners in calling for a tighter fiscal policy, as the Bundesbank president did in Basle. But again this has to be interpreted with a pinch of salt.

If the German government — which will not be finally formed before next week — can make a half-convincing stab at the chancellor's promises of D-Mark budget cuts, the Bundesbank will just about accept the resulting 1991 deficit as a temporary unification expedient without saying so, even though it will amount to some 4 to 5 per cent of GDP, or higher than that of the US at its worst. Contrary to widespread belief the Bundesbank is not pressing for tax increases, which it fears will be spent by the Länder, and much prefers expenditure cuts.

One definite change is that the Bundesbank is no longer pressing for an ERM realignment. It accepts that the French have set their faces against any further franc devaluation and that even the UK has a strong commitment to its present parity. It is also influenced by the dwindling of the German current payments surplus from DM104bn in 1989 to a projected DM40bn-50bn in

The subtext in Frankfurt is that a strong D-Mark is the key to curbing inflation

1991 and to less than DM30bn in 1992. This is part of the general process by which the much-vaunted international payments imbalances are disappearing.

About half the envisaged contraction in the German surplus is with other Community countries. This movement has nothing to do with the incorporation of the eastern Länder in the German payment accounts in the middle of 1990. For, as west German experts were amazed to discover, the former German Democratic Republic was running a current payment surplus on the basis of soft currency contracts with its Comecon neighbours.

The unspeakable subtext in Frankfurt is that the inflationary effect of reunification can be held in check so long as the D-Mark remains strong — not so much against ERM currencies, as against the dollar. The Bundesbank does not want any further appreciation against the US currency. But nor does it want to see the D-Mark appreciably lower. Thus yesterday's recovery in the D-Mark after the Gulf-promoted slide is the best possible news for other European Community countries worrying about interest rate prospects.

Of course, if there were to be a lengthy Gulf confrontation and a soaring oil price, all bets would be off. But far more would then be at stake than the course of German interest rates.

Cohen, Tesco's founder. In terms of customer perception, its quality is not yet on a par with Sainsbury's, the market leader. But it is getting there. Sir Ian should have a longer shelf-life than some of the award's previous winners. Burton's Sir Ralph Halpern and Next's George Davies have been dumped and the jury is still out on Gerald Ratner.

Swiss justice

■ Not content with keeping secret files on more than 100,000 of their fellow citizens, the Swiss police have reached out their heavy hand to British presenter Jon Snow.

In Geneva to cover the Baker-Aziz meeting, he was awakened in his hotel room at 6 a.m. by two plain-clothes men who carted him to the police station without even giving him telephone his office.

His belated crime turned out to be failing to pay the full amount of a SF900 speeding fine he incurred in Geneva two years ago. Misunderstanding the demand, Snow had paid only SF800. The receipt he received for it gave no hint that more was due.

Said Snow: "In 15 years of hacking round the world from El Salvador to Syria I've never been treated in such a way."

Far from apologising, the police told him any complaint he had must be made through official channels. UK ambassador Martin Moreland can expect an early call.

Excuse me sir

■ The Irish police have claimed considerable success for its campaign against drinking and driving over Christmas and the New Year. But one driver was undeterred. "I've had seven pints and three vodkas," he told the police. "Do you mind blowing into this bag?" asked the policeman. "Why?" said the man. "Don't you believe me?"

BOOK REVIEW

Pragmatism versus eco-zeal

The ship named Greenpeace slipped out of an almost-deserted New-haven harbour on a clear night a few weeks ago on a mission designed to create a splash in the British press. The Greenpeace organisation had devised a spectacular stunt to draw attention to the shipment of highly toxic, spent nuclear fuel on cross-Channel freight ferries.

The Greenpeace crew which had meticulously prepared the action — to interfere with one of the shipments — were a mixed bunch. There was one of Greenpeace's nuclear researchers, educated expensively at elite US institutions, who knew as much about the nuclear industry as anyone on the other side of the fence. There were the ship's officers, Captain Ahab types who need to be highly-skilled seafarers in view of the tasks given them by Greenpeace. And there were the young volunteers, whose one desire seemed to be to launch inflatable boats at what they called the enemy.

The Greenpeaceers spent the night using sophisticated communications systems to track their prey — the ferry on which they thought the nuclear materials were being carried — and to keep in touch with fellow activists on both sides of the English Channel. In the event, their efforts proved abortive. By means one can only guess at, the authorities had discovered Greenpeace's plans: the nuclear ferries had been loaded on an earlier ferry than expected, heading Greenpeace into the safety of Dover Harbour.

As a mission, it was utterly routine for Greenpeace's crew, who had just returned from the Arctic Circle where they had been fencing with EGB ships at the age of a Soviet nuclear testing site. Yet in its way it said much about the modern Green movement: the powerful mixture of raw, crusading zeal and well-briefed expertise; the resources it commands to harry any industry or company it targets; and the seriousness with which it is to be treated by any business in its sights.

How much the style of eco-activism has changed in just 20 years is revealed by a new book which has turned the spotlight on the Greens themselves. Green Warriors, by Fred Pearce, a British environmental journalist, is a close examination of the most important environmental organisations, their histories, founding personalities, differing philosophies and tactics, and their campaigns throughout the world. As such, it should interest not only activists in the world of environmentalism, but also any business person whose agenda is being shaped by environmental pressures.

The decline of the Green party in Germany, coupled with wide-ranging Green proposals in California, are feeding a recently-fashionable doctrine

GREEN WARRIORS: THE PEOPLE AND POLITICS BEHIND THE ENVIRONMENTAL REVOLUTION
By Fred Pearce
The Bodley Head £13.99

that eco-enthusiasm has peaked. The onset of recession, when the public's shaky altruism goes into headlong retreat, seems to provide further support for this theory. Yet Pearce's book offers little comfort to any industrialist tempted to view environmental concern as a fad.

True, Pearce detects waves of Green angst: the US Environmental Protection Agency and Britain's Department of the Environment were both created in 1972, after the late-1960s green flowering and just before oil price rises drove environmental issues down the agenda for almost a decade.

More striking than these cycles are the continuities in Green activity revealed by Pearce's book. When environmental groups appear to have gone quiet, you can bet that some dedicated Green is quietly preparing a campaign to spring on the world. Alan Thorburn, an early Greenpeace luminary, needed years of research and any number of subterfuges to expose an ivory smuggling ring originating in East Africa, thereby creating the conditions for last year's ban on the ivory trade.

The book details such prominent Green successes, whether one-off or continuing, such as Friends of the Earth's early campaign against the plan of Rijk, the world's biggest mining company, for a large copper mine in Snowdonia or the criticism of the World Bank's support for "white elephant" development projects in the Third World. But it is equally candid about their failures.

Where the book is particularly useful is in tracing the debates and conflicts within the evolving Green movement between the pragmatists and the fundamentalists who reject the very notion of economic growth; between those who can work with companies and those who see business as the devil. Where Pearce is less good is on thinking through these conflicts. His instincts, verging towards the fundamentalist wing of environmentalism, often get in the way of non-along analysis. For example, he is snide about Greens who work with business, but offers no alternative.

If there is one theme running through the history of the Greens, it is the gradual tempering of their zeal with professional research in their target areas. Not that this will necessarily stop the Greenpeace ship next time.

David Thomas

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John Murray Brown examines the pivotal role that Turkey has played as a staunch supporter of western allies in the Gulf crisis

A friend on the front line

On a fog-bound airstrip in Turkey last week, an ageing German Alpha Jet touched down, the first of 42 Nato aircraft deployed as part of the Allied Force against Iraq.

Nato's move follows a request from Turkey, the only member of the organisation bordering Iraq, and is officially described as a flag-waving exercise to deter Iraqi aggression.

None the less it represents an important if belated gesture of support for President Turgut Ozal, a time of mounting political tension for the Turkish leader.

While the country's eastern region braces itself for war with the army on alert, city black-outs in operation and the military requisitioning civilian Turkish politics is in disarray.

Were Mr James Baker, the US secretary of state, to have arrived as planned in the capital Ankara last night, he would have found a country in a state of confusion, a legislature where the opposition is threatening to boycott the assembly and a government in disarray.

This week, while Turkey's army is mobilising in the border with Iraq, commando and guerrilla detachments are being sent to the Turkish capital, to prevent and punish any working conditions and working wages.

The unrest stems partly from economic discontent. But a more fundamental factor is Mr Ozal's increasingly autocratic presidency at a time when many Turks feel the country is being run in a dictatorial manner.

President Ozal's Gulf policy has won the applause of the US and other allies. But it has also challenged the conservatism of Turkey's armed forces, and its traditional neutrality in foreign policy, which kept the country out of the world war.

Then, Turkey has been a vital pivot of Nato policy, a buffer to counter Soviet expansionism.

The country's strategic importance would appear clear. Turkey, a nation of 57m, is a major power in the Middle East, and its deep suspicions of the territorial ambitions of Iran and Syria, if Iraq were destroyed, Turkey's long-term fear is that these radical neighbours would exploit the power vacuum in the region.



President Ozal's Gulf policy has strained military relations

the region. There is equal need to pre-empt any separatist moves by the Kurds, who live in Turkey, where they have won a sporadic campaign for political independence since the mid 1970s. And there are some nationalists who would like to see the country revive its historical claims to the oil-rich Iraqi province of Mosul and Kirkuk.

The Gulf crisis has clearly brought awkward issues to the fore, but there was little sign of any of these issues since Iraq tanks invaded Kuwait on August 2. Turkey has outdone even some of the alliance partners in applying the United Nations embargo on trade with Iraq. It cut the twin pipeline carrying Iraqi oil to the Mediterranean before the Saudis had complied.

However, if Mr Ozal hoped for significant economic support from the allies, he has been disappointed. The economic costs are sizeable, given the growing inflation, the volatility in oil prices, and the loss of income from the oil bill - and the effect of inflation, already running at about 60 per cent. Official estimates put the total costs of supporting the West at close to \$500m until the end of this year.

There are aid pledges of some \$2.5m. But Turkey has to date received less than \$500m - a \$500m soft loan from Kuwait's emir, and \$250m-worth of oil from Saudi Arabia. Quite apart from the economic burden on this develop-

ing country, the Turks share Mr Ozal's view that by its unequivocal support for the allies, Turkey can forge a modern identity for itself. The sceptics point to Mr Ozal's application for membership of the European Community, shelved indefinitely in 1988.

"We should not see an end to the West. Our interests are quite different. We are part of the region," says Mr Ozal. "We are not a former prime minister."

Today some members of government appear to share this view. In October, the defence and foreign ministers resigned. Worse followed, with the resignation of Mr Ozal's close ally, Necip Toruntay, Turkey's chief of general staff, prompted speculation that the army might try to stage a coup, but the North was in no mood to support the idea.

The main motive of the resignations are hard to discern. But one factor may be that there are practical reasons in some parts of the military for supporting the West's conscript army in the Gulf. The armed forces, though large with 650,000 men, are short of both war experience and military hardware. Military analysts point out that it is more than 80 years since Turkey fought a full-scale war, for independence against Iraq, and since then in the Gulf.

Defence specialists say the Turkish armed forces are still in a state of transition. The 104 F-104 fighters are old, and the 104 F-16 fighters are new. The 104 F-16 fighters are new, and the 104 F-16 fighters are new. The 104 F-16 fighters are new, and the 104 F-16 fighters are new.

On the ground, Turkey is equally ill-prepared. Its 3,700-strong mechanised division largely comprises petrol-burning M47 and M48 tanks, dating from the 1950s when Turkey joined Nato.

Even before the Gulf crisis, President Ozal's relations with the army had become increasingly strained. His apparent ambivalence about the growth of Islamic fundamentalism was of particular concern for a military which sees itself as the guardian of the secular values laid down by Turkey's founder, Mustafa Kemal Atatürk.

In addition, Mr Ozal's call for direct presidential elections posed another challenge to the military and the constitution. They feared, and they have, that the army would be chosen by parliament. Mr Ozal's handling of this policy now appears to have strained the military's patience to breaking point.

Toruntay resigned there were no other options. He was a high-ranking officer, and he was a high-ranking officer. He was a high-ranking officer, and he was a high-ranking officer. He was a high-ranking officer, and he was a high-ranking officer.

Against this background, Mr Ozal's decision to support the West is a bold move. It is a bold move, and it is a bold move. It is a bold move, and it is a bold move. It is a bold move, and it is a bold move.

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It ought to have been a small matter of interest only in the cosmopolitan. Instead a bitter war is brewing over the forthcoming privatisation of the Cardiff-based short-term insurance operations of the Export Credits Guarantee Department.

The sale is expected to yield barely £100m, and possibly less, but at a time of deepening recession and a yawning trade deficit it has reopened with a vengeance the long-slumbering argument over government commitment to the export industry.

Resentment at the way British companies are denied the government support enjoyed by their continental competitors has prompted an unlikely alliance between the City, industry and the Labour party. As a result, the government can expect a rough ride when the privatisation is debated in the House of Commons next Tuesday.

Exporters fear that the government is preparing to abandon them for the sake of doctrinaire attachment to an unnecessary sale that would yield the exchequer a paltry reward and might leave them with less choice of credit insurance than they have at present.

By contrast many insurance experts said that the idea of privatising the Cardiff operation - first mooted in a 1989 report by Mr Bob Kemp, a former senior ECGD official - was eminently sensible in the light of European market developments.

ECGD's turnover and profits were rising as the investment in new information technology and underwriting techniques. To exploit this and to make up for the competition in the European single market, it needed the freedom to seek new clients outside the traditional limits of British exporters.

Short-term credit insurance is a high-risk business compared with the risky business of giving long-term export credit. The activity in which ECGD is engaged is, in fact, the £13bn-£14bn of short-term credit insurance which makes up the bulk of ECGD's overall business, and is regarded as an essential service by many exporters.

It covers companies producing goods such as chemicals or cars against the risk that their customers will fail to pay on the due date. Armed with such insurance these companies can more easily obtain short-term credit from their banks to tide them over until the money comes in.

Most of this insurance is

Exporters fear fresh drain on their credit

Peter Montagnon on controversy over plans to sell ECGD's short-term insurance operations

written on trade with other countries and was against the customer's interest because of bankruptcy risk. The key to another, run out of foreign exchange. The risks are thus lower than those on insuring long-term credit to developing countries, but the margins are fine and high volume is vital.

Liberalisation of the non-life insurance market under the 1992 European single market programme would mean the spectre of a war in Community-wide competition in credit insurance, wiping out all the short-term players.

ECGD's survival was widely seen as a privatisation that would open up the business to competition.

Only one, however, was the parliamentary debate in which the government line that

ended by the Gulf crisis, in the question of what will happen to short-term credit insurance for exporters. Many exporters and some brokers believe that it will allow them to acquire the Cardiff operation would give it a monopoly of the entire UK credit insurance market - a point which Trade Indemnity, naturally, vigorously denies.

Some argue that the government should modify its plans. It could go ahead with legislation designed to turn Cardiff into an independently-run but still state-owned company without following through with privatisation. This would ensure that government support for short-term export credit is not lost.

Yet it is precisely on deals with countries such as the Soviet Union, or debt-ridden Mexico, or even until recently, Iraq, that the services provided by Cardiff are particularly valued by exporters.

The European government has no signs of winding down this kind of government support, but Cardiff has decreed that after a three-year period it will be wound down in the UK.

The government line that ECGD, the government-owned insurer, remains responsible for reinsurance of credits in difficult markets is absolutely clear. But the private market can take over, and exporters can

private reinsurers will quickly step in to fill the gap is hotly disputed in the marketplace. Some exporters, but declined to discuss ECGD publicly ahead of next week's parliamentary debate, and that is the line of the government's backtracking.

In common with many worried by ECGD, Labour's Mr Quin, the Treasury spokesman, is pushing a cost-cutting line. The deepest line of all is that with Cardiff shunted out to the private sector, the Treasury would be able to bear its share of the cost of ECGD's loss-making long-term project insurance division.

If it is in making life impossible for the project group, there would be nothing left of the oldest export credit agency in the world.

Resentment at the way British companies are denied the support enjoyed by continental rivals has prompted an unlikely alliance between City, industry and Labour

implications and about the risk of a company's bankruptcy. According to Mr Joyce Quin, a Labour spokesman on trade, exporters have still not been properly handled about the privatisation which was "sneaked" on to the parliamentary agenda just before Christmas.

Industry yesterday protested in letters sent to Mr Tim Sainsbury, the trade minister, by the London Chamber of Commerce, the British Exporters' Association and other trade associations. The London chamber letter says: "It is imperative that the existing level of service to exporters from Cardiff, both in terms of the markets covered and the period available should not be diminished."

One of the most urgent concerns, which has been height-

LETTERS

Inflation accounting

From D.R. Middleton.
Sir, Austin Mitchell ("Real audit reform: statutory regulation", December 28) is wrong to say that the Institute of Chartered Accountants (in England and Wales) opposed the need for inflation accounting. On the contrary, in 1973 it was instrumental in proposing Exposure Draft 8 on "Accounting for Changes in the Purchasing Power of Money". This later became SSAP 7 and required all quoted companies to publish supplementary constant purchasing power (CPP) financial statements.

Mr Mitchell may be thinking of the opposition to the later quite different proposals for current cost accounting (CCA), which were widely unpopular among business people generally, not merely among accountants. Moreover CCA was not even a system of accounting for inflation. It represented an attempt to measure the real value of assets and liabilities in accounting matters about which they knew little.

D.R. Middleton,
Cranfield School of Management,
Cranfield, Bedford

So what's new?

From Mrs Carol Kohl.
Sir, I noted with some wry amusement that Mr Martin Sampson, MD of UK's second-largest corporate identity consultancy, believes that the need for a new identity (sic) for BT at a cost of £50m ("In defence of BT's £50m facelift", January 5).

He would say so, wouldn't he?
Carol Kohl,
51 Rotherwick Road, NW11

Shareholders are not necessarily best served by increased dividends

From Mr Paul Myers.
Sir, Dividends may be "the core of the relationship between management and owners" ("M&G: corporate governance", January 10) but this does not mean shareholders' interests are necessarily best served by maintaining or increasing the annual distribution.

In the circumstances in which many listed companies find themselves, it may be unwise for shareholders to press their claim for dividends at the expense of further weakening an already stretched balance sheet, inhibiting vital capital investment or curtailing research and development programmes. It may make sense to maintain if corporate profits are falling severely squeezed during this recession, clearly company boards should take account of the shareholders' interests and put the principle of a powerful and responsible long-term financial holder of equity shares.

However, it seems the real issue of the matter surely is whether there can be an increase in retained earnings (partially irrespective of profits) - out of which dividends are paid or reinvested - so succinctly commented on by Lex ("The maintenance of dividends", June 11 and "Time to dividend restraint", September 14). The principle thrust in these articles was that dividend cover should be increased through greater restraint, and that had been falling in any event, and rising dividends were still being declared by many companies in spite of falling earnings.

It would appear that the only way to reconcile the aspira-

tion anyhow hinges on sound monetary policies more than a central bank's status.

But if the government is now committed to getting inflation down, how long can it be expected to remain so? The experience of successive governments over half a century, since the bank was nationalised, is hardly encouraging.

There is no government can bind its successor - and Labour, so far, is equally reluctant to surrender political control of the monetary tiller.

Again, gratitude for the added discipline imposed by ERM membership should not blind us to the fact that, necessary though it is, it is not sufficient to keep the ship on a steady course. It needs to be helped by an independent monetary authority committed to price stability, or monetary inflation, and insulated by the electoral cycle.

The central bank's status, though secondary to its main task, should be one month and year to the next, in that an indispens-

able component of the anti-inflationary strategy mix being capable, as you suggest ("Mr Major's challenge", January 5), of extricating the government from its credibility dilemma.

Let the bank's governor put his mouth where his money is, with the support of parliament, and an independent monetary future will be linked to its year-to-year counter-inflationary strategy.

W. Grey,
The Garden House,
Balthayock, Perth, Scotland

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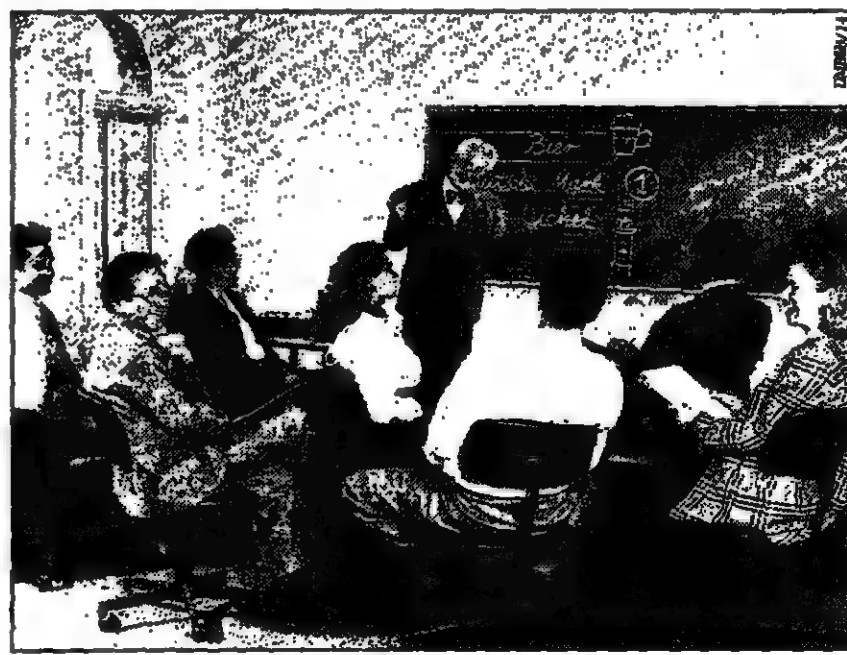
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Thursday January 10 1991

INSIDE

Unilever expands in Finland

Unilever, the Anglo-Dutch consumer products giant, will double the size of its food business in Finland by acquiring a 49.9 per cent stake in Jämsä, part of Hiltunen, the Finnish food, packaging and pharmaceuticals company. The companies did not disclose the price or other terms of the deal or how the existing business might co-operate. Page 14

Falling cost of flying high

Deregulation of Australia's airline industry has had a dramatic effect on the domestic market, with the price of flying falling by as much as 50 per cent. The price war between the two big airlines - Australian Airlines and Qantas - has been minimal. The market hit is likely to be the Compass Airlines, the first new airline for decades to offer national services. Page 18

Electricity profits as forecast

Three of the UK's 11 regional electricity companies reported last month's annual results, showing pre-tax profits yesterday and showed little deviation from expectations. British Electricity reported historic pre-tax profits of £66.7m, representing 47.9 per cent of its full pre-tax forecast of £73.1m. After an historic basis, East Midlands Electricity announced pre-tax profit of £14.8m and Southern Electric of £23.7m. Page 11

Reaping Baja's hidden treasure

For hundreds of years, the population of Mexico's Baja California - a desert state in the north-west - have survived largely through agriculture, farming and fishing. But for a lucky few, the land has changed into "an aid programme that is a business". That is how agronomist Larry Jacobs describes the El Cabo Project, an organic vegetable operation which in four years has made its participants some of the highest paid farmers in the country. Page 22

Pause for German retailers

West German retailers enjoyed a bumper year in 1990 largely due to the flood of East German consumers flocking to the west. The cuts and wage rises for west German consumers also added to the spending spree, which saw a 10 per cent rise in total retail sales. Retail sales in the German economy, which surged throughout most of last year, are now in a post-Christmas slump. Analysts, however, are optimistic that there are still good times ahead. Page 24

Asea falls 27% mid-way

The purchase by Asea of 60 Gateway stores for £705m (£1.5bn) in October 1989 is still weighing heavily on the company's financial performance. Yesterday, the 100 supermarket chain announced a 27 per cent drop in interim pre-tax profits from £83.5m to £61.5m. Page 20

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Chief price changes yesterday

FRANKFURT (DEM)	PARIS (FFr)
Deutsche Bank	390.5 + 12.5
Hofmann	1047 + 22
Ving	336.2 + 7.2
Deutsche Bank	390.5 + 12.5
Hofmann	1047 + 22
Ving	336.2 + 7.2
Deutsche Bank	390.5 + 12.5
Hofmann	1047 + 22
Ving	336.2 + 7.2

New York prices at 12.30pm

London (Pence)	289 + 11
Deutsche Bank	430 + 16
Hofmann	124 + 6
Ving	1099 + 25
Deutsche Bank	329 + 11
Hofmann	378 + 11
Ving	46 + 11
Deutsche Bank	200 + 35
Hofmann	372 + 17
Ving	15 + 2

A bridge over troubled waters

Clive Cookson, Karen Zagor, and William Dawkins look at the link between Kodak and Elf



The grand alliance between Kay Whitmore, of Kodak (left) and Loik Le Floch-Prigent, of Elf

The alliance, as Sterling Drug and Sanofi call their global venture, is an innovative solution to the competitive and financial pressures on the world's second-tier pharmaceutical companies. As Mr Jean-François Dehecq, Sanofi chairman, says, each partner gains clout in research, development and marketing, without having to spend the \$3bn or so that would be required to buy a major pharmaceutical company. Neither Sanofi - 62 per cent owned by Elf Aquitaine, France's oil and chemicals giant - nor Kodak, which is still incurring heavy losses following its acquisition of the pharmaceutical division of Eastman Kodak, is in a position to take on such a task. Although the \$5.1bn or so share price tag for Sterling was considerably higher than Hoffmann-La Roche's \$72-a-share bid, the figure was not out of line with other drug company acquisitions.

But Kodak's existing pharmaceutical businesses were too small to help the company merge through rationalisation and consolidation. Instead, Kodak found itself with an expensive, struggling pharmaceutical business which it failed to introduce any new drugs into the market. This was despite the company's library of some 500,000 chemical compounds, which Kodak had hoped would be developed into drugs. "Sterling was a big disappointment for Kodak," said Mr Clive Cookson, an independent Jersey-based analyst. Sterling's biggest product remains Bayer aspirin, which last year had sales of about \$200m. "This [deal] won't create a world-class pharmaceutical company," said Mr Shah, "given combined sales are only about \$2.5bn and a large chunk of this is in over-the-counter drugs, but it was essential for both Sterling and Sanofi."

The deal follows an unprecedented wave of French takeovers in the US. Many of these have left the bidders struggling to service debts built up in finance their ambitions. Rhône-Poulenc, France's big state-controlled chemicals company, has been hit hard by interest payments on the \$1.7bn it raised early last year to buy Roror, another US drug company. Mr Dehecq initiated the first meeting with Sterling Drug last June. He selected the company on the grounds that it was about the same size as his own and was strong where the French group was weak.

Both sides agreed from the start that a full merger or an acquisition was out of the question, he said. They agreed on the importance of keeping their research out of the deal. Sanofi had already made two failed attempts to buy US drug companies, A.H. Robbins, which went to American Home Products in 1982, and Roror. That experience suggested that Sanofi would have had to pay about \$100m equivalent to buy a company such as Sterling Drug, which Mr Loik Le Floch-Prigent, chairman of Elf Aquitaine, "is better in have two winners rather than a winner and a loser. We thought we would rather keep our money for research and development," he said. Mr Le Floch-Prigent insisted that the deal was equally balanced between the pair and that there was no dominant partner. Mr Dehecq admitted, however, that the decision to use the brand name for the brand name for the alliance's new drugs would be an American boon to the French partner. The cultural problems of a Franco-American link would appear to be relatively insignificant, according to the experience of Mr Jean-François Fourtoun, chairman of Rhône-Poulenc. He said on a visit to the UK before Christmas that his experience of the first nine months of the merger with Roror showed that such a pharmaceutical alliance could work well. Rhône-Poulenc, however, is a single company. It is a simpler undertaking than the Sanofi-Sterling alliance, with its three joint venture companies run by strategic management.

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Merged drug group to enter world top 20

By William Dawkins in Paris and Karen Zagor in New York

SANOFI and Sterling Drug, the French and US pharmaceutical companies, yesterday agreed to pool most of their businesses to create one of the world's 20 largest drug companies. Rhône-Poulenc, France's big state-controlled chemicals company, has been hit hard by interest payments on the \$1.7bn it raised early last year to buy Roror, another US drug company. Mr Dehecq initiated the first meeting with Sterling Drug last June. He selected the company on the grounds that it was about the same size as his own and was strong where the French group was weak. Both sides agreed from the start that a full merger or an acquisition was out of the question, he said. They agreed on the importance of keeping their research out of the deal. Sanofi had already made two failed attempts to buy US drug companies, A.H. Robbins, which went to American Home Products in 1982, and Roror. That experience suggested that Sanofi would have had to pay about \$100m equivalent to buy a company such as Sterling Drug, which Mr Loik Le Floch-Prigent, chairman of Elf Aquitaine, "is better in have two winners rather than a winner and a loser. We thought we would rather keep our money for research and development," he said. Mr Le Floch-Prigent insisted that the deal was equally balanced between the pair and that there was no dominant partner. Mr Dehecq admitted, however, that the decision to use the brand name for the brand name for the alliance's new drugs would be an American boon to the French partner. The cultural problems of a Franco-American link would appear to be relatively insignificant, according to the experience of Mr Jean-François Fourtoun, chairman of Rhône-Poulenc. He said on a visit to the UK before Christmas that his experience of the first nine months of the merger with Roror showed that such a pharmaceutical alliance could work well. Rhône-Poulenc, however, is a single company. It is a simpler undertaking than the Sanofi-Sterling alliance, with its three joint venture companies run by strategic management.

company, to be 51 per cent held by the French partner and 49 per cent by Sterling Drug, with annual sales of \$1.7bn. The two drug companies are to set up a third joint venture for over-the-counter (OTC) drugs in Europe, with annual sales of \$1.7bn. The two companies will draw profits directly from their own products. This will be managed by Sterling because OTC products make up a much bigger slice of its sales than in the case for Sanofi, which is best known for its pharmaceuticals and not over-the-counter prescription drugs like Tylenol and Calceparine. Both sides are keeping independent ownership of their basic research laboratories but will share certain development costs, plus production, distribution and marketing. The pair will continue to draw profits directly from their separate existing drugs, but will share profits and losses from new products. The letter of intent they announced yesterday will be turned into detail agreements in three months.

Airbus Industrie to review Pan Am lease arrangements

By Nikki Tait in New York

AIRBUS Industrie, the European four-nation aircraft manufacturing consortium, is to review its lease arrangements with Pan Am. Airbus is the financially troubled US airline's main creditor. Airbus 300 and 400 widebody aircraft valued at around \$550m. Jean Pierson, the Airbus chief executive, said yesterday the European consortium was owed \$550m by Pan Am for the lease payments on the 21 aircraft. Pan Am had for protection under Chapter 11 on Tuesday. Airbus Trust, the US trust set up to protect Airbus' interests, has agreed to provide an interim loan of \$150m. Mr Pierson said the Airbus Trust had intended to clear Airbus' name in the new round of negotiations with Pan Am to protect the trust's interests on the outstanding backpayments on the previous lease agreement. Airbus started taking legal



Pierson: tough stance

last night yesterday that Airbus has had to make provisions totalling about \$100m for unsecured loans to Eastern. Airbus originally signed a long-term lease agreement with Pan Am for the 21 widebody jets in 1981. But last month it announced that it had terminated the agreement because of concerns over Pan Am's ability to honour its commitments and the possibility of the US airline filing for protection from its creditors under Chapter 11 of the US bankruptcy code. Airbus pre-empted the move on December 21 by terminating its long-term lease agreement with Pan Am and substituting it with a new short-term monthly lease. Airbus will be able to terminate the 21 widebody aircraft after that if it fails to reach a satisfactory agreement with Pan Am to resume the short-term monthly lease for the jets, Mr Pierson said.

BNE rescue cost may top \$2.3bn

By Peter Riddell in Washington and Alan Friedman in New York

THE US rescue of the Bank of New England, the bank that was taken over by the FDIC, is likely to cost more than the \$2.3bn (£1.2bn) already disclosed, according to Massachusetts officials and bankers involved in the bail-out. The officials, who asked to remain anonymous, said the price-tag was a rough estimate and the final cost would depend on the extent of further losses to be discovered and the amount of real estate assets that can be sold. The rescue could make the BNE the most costly in US banking history. Mr William Seidman, chairman of the Federal Deposit Insurance Corporation (FDIC), said on Sunday the government might eventually have to declare up to \$6bn of BNE's assets worthless. A senior official involved in the rescue said yesterday this consisted of \$3.3bn of non-performing loans and foreclosed properties plus a further \$2.3bn of sub-standard assets that might be unrecoverable. It also emerged yesterday that the acquisition of BNE - whether it is Bank of America, Banc One of Ohio or another - will probably have a cost of \$750m and \$1bn for the bank's franchise, its branches and deposits. This would be aimed at achieving a capital ratio

of about 4 per cent by injecting funds into the bank, which will have negative capital of about \$200m when fourth-quarter 1990 loss is calculated. In Washington, meanwhile, it was explained that the Federal authorities' decision to protect all depositors at BNE was taken because of the fear that not doing so could trigger other bank failures and a further drain on the already weak deposit insurance fund. Federal regulators yesterday explained to the House Banking Committee why the rescue, late on Sunday, of the banks owned by BNE covered all deposits, and not just those up to \$100,000 protected by the Federal guarantee.

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Jenbacher emerges as contender for Telfos

By Richard Gourlay in London

JENBACHER Werke, the Austrian engineering company, yesterday emerged as a serious contender for Telfos Holdings, the London-based rolling stock manufacturer which is a hostile £40m (\$75.6m) bid from William Cook on Tuesday. The Tirol-based company, which is the largest rolling stock supplier in Austria and has a market capitalisation in Vienna of Sch84m, said in a statement that it remained interested in a possible bid. Telfos, which has built a 2 per cent stake in Telfos since December, said it believed the two companies could produce a "major force in the European railway industry". Jenbacher is making an offer for Telfos. The management of Telfos's industrial divisions, in which the "perceived industrial synergy" and the "adequacy of provisions" that Telfos has made in its assets and investments that have turned sour. An William Cook launched his surprise bid on Tuesday, Jenbacher (which is the Telfos) said in London to discuss Jenbacher's possible offer. Mr Stephen Cockburn, chairman of Telfos, said his board was giving the Jenbacher proposal serious consideration and the two companies had exchanged information to reach each other's operations. Telfos would be reluctant to give Jenbacher further information concerning its provisions before issuing its defence to the Cook bid because any information would be made available to the hostile bidder, Mr Cockburn said. Telfos also said in a statement through its financial advisers, Herring Brothers, that it was aware recent board changes had created uncertainty. These include the recent resignations of a chief executive and a joint managing director. A review of the group's financial position would focus shareholder attention on the "excellent outlook for its core railway and engineering activities," the statement said. Telfos was forced to defer dividend payments on preference shares early this month and has made 28.6m of provisions covering bad investments. Jenbacher has sales of about \$1.5bn and is 51 per cent controlled by Auricon, a Vienna-based holding company which bought the rolling stock company from Creditanstalt, Austria's commercial bank, in 1989.

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Siemens and Skoda discuss links

Skoda is a leading railway locomotive manufacturer in eastern Europe, and Siemens has exchanged information with Skoda on three-phase locomotive motors. Other western companies understood to be interested in this unit include the Swedish/Swiss concern Asea Brown Boveri.

Siemens is the most active western participant in the industrial regeneration of east Germany, employing nearly 15,000 people. It expects a turnover of about DM3bn for 1991 with DM4bn worth of new orders, in sectors such as telecommunications, power generation and automation.

On the one hand, power generation has shifted from nuclear programmes to more modern, efficient combined-cycle plants, and the UK's equipment market has been reshaped by the forthcoming privatisation of the electricity-generating industry.

On the other hand, orders for railway equipment - where GEC Alsthom is a high-profile product - in the high-speed French train TGV - have mushroomed.

0th January 1991



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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Mitel president quits post after four years

By Robert Gibbens in Montreal

MR JOHN Jarvis, after almost four years at the helm of Mitel Corp, the Ottawa-based telecommunications equipment maker, is leaving to pursue other business interests.

Mr Jarvis took over as president and chief executive of troubled Mitel in 1987, two years after British Telecom acquired control for C\$320m (US\$278m). He has been credited with reorganising Mitel and saving it from disaster. He was born in South Africa and educated as a mathematician in Oxford.

His departure would not affect his plans, but said his departure was not related to British Telecom's problems in finding a buyer for its 51 per cent stake in Mitel.

His job will be assumed by Mr Anthony Griffiths, now chairman. Mr Griffiths joined Mitel immediately after British Telecom bought control. He says he has a mandate to improve profits.

In the six months ended September 28 1990, Mitel suffered from stronger competition in the business telecom equipment market and



John Jarvis: move not related to British Telecom problems

reported a loss of C\$7.1m on revenues of C\$214m, against a profit of C\$4.1m on sales of C\$204m.

British Telecom paid C\$8 a share for its Mitel stock. The shares are now worth \$15 on the market.

Analysts expect that Mr Jarvis's departure could make it more difficult for British Telecom to sell the Mitel control block on reasonable

Paramount ahead after sale of finance unit

By Karen Zager in New York

PARAMOUNT Communications, the US publishing and entertainment company, has reported a strong improvement in earnings from continuing operations in the fourth quarter of 1990.

Gains from the sale of its Capital Finance services unit in October 1990 helped to offset a decline in its

For the three months ended October 31, earnings from continuing operations were \$10.5m, or 50 cents a share, compared with a loss of \$13.4m, or 11 cents, a year earlier.

Net income in the 1990 fourth quarter was distorted by the sale of Associates for a net gain of \$1.2m. Overall net income was \$1.32m, or 10 cents, a year earlier. Revenues in the quarter rose to \$1.13bn from \$969.6m.

For 1990, Paramount's net income was \$259.1m, or \$2.16 a share, compared with a net loss of \$1.5m (9 cents). Total net income for last year was \$1.47bn (\$12.21).

The 1990 figures included extraordinary items such as charges of \$1.1m and a net gain of \$7.4m. The company's 1990 results include net interest income of \$78.5m, mainly due to investment of proceeds from the sale of Associates.

Revenues in 1990 were \$1.13bn, compared with \$969.6m in 1989. Paramount said operating income from its entertainment businesses fell in the year. Gains in Paramount's television operations were not enough to offset declines in film and

cinema operations and the costs associated with renovations at Madison Square Garden.

The company's publishing businesses had higher earnings, after an improved performance from Simon & Schuster's publishing areas, particularly education.

International Paper posts sharp decline

By Karen Zager

INTERNATIONAL Paper, the US forest products group, has shown a sharp decline in fourth-quarter earnings. However, the fall, which highlights the cyclical downturn in the industry, was in line with expectations.

For the three months ended December 31, the company reported net earnings of \$23m or 20 cents a share against \$197m or \$1.61 a year earlier. Earnings in the 1990 quarter include an after-tax charge of \$137m or \$1.16, mainly related to the sale or liquidation of non-strategic and under-performing assets.

Revenues grew to \$1.2bn in 1990 from \$1.14bn. Mr John Georges, chairman, said the company was "in a poor economic climate". He said the company's European paper business had performed well.

The company's planned asset sales are expected to generate as much as \$300m in proceeds in the next three years.

Lufthansa in DM1bn issue to finance aircraft renewal

By Katherine Campbell in Frankfurt

LUFTHANSA yesterday kicked off its 1991 borrowing programme with two floating-rate bonds totalling DM1bn, with the proceeds to go towards the German national airline's three-year fleet renewal programme.

Despite expected operating losses for 1990, Lufthansa is investing some DM10bn (US\$6.5bn) in aircraft over three years, beginning last year.

It has also been hit by high staffing costs and the escalating fuel prices being suffered across the airline industry.

By the end of 1992, the average age of the fleet will be down to 10 years, with quieter, more fuel-efficient and less

staff-intensive aircraft. Lufthansa will be spending DM30m this year, with DM1.7bn being financed through the capital markets, and the rest to come from internal sources such as cash flow.

The airline is waiting for a decision from the Bonn transport ministry on its proposal to assume control of Interflug, the loss-making east German airline. The Berlin cartel will only approve the deal if the Treuhand, the trust body that now owns Interflug, is willing to continue on a non-circulating footing.

If Lufthansa's plans are adopted, it would be handed a contract by Bonn, as the owner of Interflug, to restructure the airline, owned by the government. Lufthansa would pay for the shares only when the task was completed.

Government proposals to sell the 32 per cent of Lufthansa that it still owns could run into obstacles because of the way the pension system is set up. Bonn is searching for ways to reduce the budget deficit, but it cannot cut pension contributions, the state could be forced to pay a cash sum equivalent to the discounted value of these obligations, making the sale less attractive.

NatWest loses top credit rating

By Stephen Fidler, Euromarkets Correspondent

NATIONAL Westminster Bank yesterday lost its top Aaa credit rating from the US rating agency, Moody's Investors Service.

The bank was downgraded from the highest rating by the other main US rating agency, Standard & Poor's, in August and by the UK-based credit specialist IBCA in the following month.

Following a period of market liberalisation and loan losses to continue to rise due to weak economic conditions in the UK and US, Moody's said in explanation.

About 60 per cent of the bank's assets are in the UK and its subsidiaries in 15 other countries.

Profitability would remain

the bank's interest provisions for possible loan over "a somewhat extended period".

This and recent critical increases would put some pressure on the bank's capital. In the US, the bank's loans for real estate highly leveraged companies and project financings are particularly vulnerable.

In the UK, the bank has been more general and limited in its lending. However, some lending sectors in which the bank holds significant shares - small middle market businesses, property, construction and retail services - were likely to be affected by the economic slowdown and the prolonged

high level of interest rates. The bank's senior rating was lowered one notch from Aaa to Aa1 and subordinated debt ratings from Aa1 to Aa2.

The agency's top Prime 1 rating for the bank's short-term debt and deposits remains unchanged.

Moody's said the action reflected its expectation of further increases in provisions and problem loans since the company would be particularly exposed to the UK economic situation.

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Court says DG Bank must buy back bonds from unit

By Robert Gibbens

DEUTSCHE Genossenschaftsbank (DG Bank), the central bank for Germany's co-operative institutions, must buy back bonds with a face value of DM1.2bn (US\$740m) from its subsidiary Bausparkasse Schwäbisch Hall (BSH) under reports from Frankfurt.

A German arbitration court has ordered the bank to honour verbal pledges from former DG Bank chief bond dealer Mr Friedrich Steil to buy the bonds back.

DG Bank sacked Mr Steil last year following a dispute with French banks about similar bond deals.

DG Bank said its deals with BSH were scrutinised after French banks said deals with DG Bank involving BSH worth a nominal DM6bn were part of a repurchase agreement.

DG Bank initially said it had no documentation in back of a deal, but later agreed to take

the French banks' word. The value of the paper had fallen sharply as German bonds slid on fears about the mounting costs of German unity.

DG Bank and the arbitration court decision meant that the same conditions had been applied to the bonds sold to BSH as those applied to the French banks' bonds.

The court had not decided who would pay any damages from the bond transactions and another court hearing would be needed to determine this, it added. This meant the decision would not affect the French deals.

Based on current market rates, the bonds sold to BSH in 1988 have lost between DM70m and DM100m in value. Mr Helmut Gutthardt, the outgoing DG Bank chairman, has estimated losses from the bond deals with the French banks to be at least DM300m.

Canada shippers to merge Great Lakes cargo units

By Robert Gibbens

THREE leading Canadian shipping companies, faced with several years of declining business, are merging their Great Lakes bulk cargo operations.

Canada Steamship Lines, Montreal, controlled by a family holding company, will contribute eight bulk vessels to the partnership. Misener, a privately-held Ontario company, will contribute five of its vessels plus three owned by James Richardson & Sons, Winnipeg, that are managed by Misener.

The new company, which will begin operating this spring, is called the Great Lakes Bulk Carriers. The aim is to reduce overhead and operating costs and offer more flexibility to customers through running a larger fleet.

The 16 vessels will operate mainly on the Great Lakes and Lawrence River network from Labrador to Thunder Bay,

north-western Ontario, taking wheat exports eastward and returning iron ore to Great Lakes steel plants.

The ships will remain in the existing ownership, but will be managed by the new company. Declining grain exports and low ore markets reduced Great Lakes cargo tonnage to 200m tonnes in 1990 to 150m tonnes last year.

Fifty Canadian vessels have been taken out of service and two other bulk shipping concerns have a joint marketing group last year. There are still several independent bulk fleets.

Mr Frederick Pitre, president of Canada Steamship Lines, said the pooling was solely of conventional bulk cargo. The 16 vessels will continue to operate independently in its fleet of 22 self-unloading vessels.

Lazard Brothers to take stake in Swiss bank

By David Llewellyn, Banking Editor

LAZARD Brothers, the London merchant bank, is taking a substantial stake in Les Filles Dreyfus, a private bank.

Lazard is not changing the size and cost of the stake, but the chief executive, Mr David Verrey, said it would cement a long-standing relationship between the two banks.

Dreyfus, founded in 1813, is owned by the Dreyfus family. It specialises in private banking and fund management, and employs about 200. At the end of 1989, it had a balance sheet totalling Sfr7.5m (\$525m), and disclosed share capital and reserves of Sfr250m. In 1989, it reported profits of Sfr23.6m.

Mr Verrey, who will join the Dreyfus board, said the banks would develop their existing co-operation on the fund management side, and explore other possibilities.

The investment is being funded out of Lazard's own resources and by Lazard Partners Limited, the principal shareholder in the Lazard group of banks.

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INTERIM REPORT

CONSOLIDATED INCOME STATEMENT

	Six months ended 31 December 1990	Six months ended 31 December 1989	Year ended 30 June 1990
Revenue	R900	R900	R900
Income from investments	9,117	9,155	16,893
Surplus on realisation of investments	13,362	3,394	5,945
Interest and sundry revenue	165	637	788
	22,644	13,186	23,626
Expenditure	2,780	620	3,369
Administration	783	622	1,190
Exploration	1,233	87	1,873
Interest paid	764	11	286
Profit before tax	19,864	12,568	20,067
Tax	30	967	322
Profit after tax	19,834	11,599	19,745
Minority shareholders' interest	-	88	208
Profit attributable to members	19,834	11,483	19,537
Earnings per share - cents	65	50	85
Dividends - per share - cents	17	17	50
Dividends - absorbing - R900	5,206	3,928	11,562
- times covered	3.8	2.9	1.7

*Unaudited

CONSOLIDATED BALANCE SHEET

	31 December 1990	31 December 1989	30 June 1990
Investments	R900	R900	R900
Properties and ventures	160,076	70,903	97,101
Net current assets	135	135	135
	(11,399)	979	(24,720)
Current assets	4,261	8,208	3,951
Less current liabilities	15,598	6,227	28,671
	168,876	72,017	72,516
Share capital	88,584	5,778	5,778
Reserves	80,291	66,224	66,654
	168,876	71,000	71,430
Minority shareholders' interest	-	1,017	1,068
	168,876	72,017	72,516
Investments	366,038	424,411	424,411
Listed - Market value	167,350	368,903	268,754
- Excess over book value	178,748	69,577	95,776
Unlisted - Book value	1,328	1,328	1,328
Number of shares in issue	30,635,001	23,103,608	23,103,608
Net assets (as valued) per share - cents	1,243	1,880	1,532

*Unaudited

NOTES

1 Dividend A dividend No. 79 of 33 cents per share, absorbing R7,624,000, was declared in respect of the year ended 30 June 1990 on 7 August 1990 and paid on 26 September 1990.

2 Merger of Selected Mining Holdings Limited, Witwatersrand of arrangement providing for the establishment of Selected and Wit Deep as wholly owned subsidiaries of New Wits was approved at meetings of shareholders of the respective companies held on 28 November 1990 and subsequently sanctioned by the Supreme Court (Witwatersrand Local Division). The merger became operative on 17 December 1990 and the listing of the new Wits shares commenced on the stock exchanges in Johannesburg and London on the same day.

3 Presentation of Results The results are not comparable with past results because Wit Deep operated as a separate company until 30 June 1990.

4 Prospects Despite the weak gold price it is most likely that the final dividend paid last year will be maintained.

DECLARATION OF INTERIM DIVIDEND

Dividend No. 80 of 17 cents per share has been declared in South African currency, payable to members registered at the close of business on 25 January 1991.

Warrants payable on 27 February 1991 will be posted on about 26 February 1991.

Standard payment of dividends is obtainable from the share transfer offices and the London Office of the Company. Requests for payment of the dividend in South African currency by the Company on or before 25 January 1991 in accordance with the above-mentioned conditions.

The register of members will be closed from 26 January to 1 February 1991, inclusive.

On behalf of the Board,
M. R. Fuller-Good
C. J. Ross } Directors

Registered and Head Office
Gold Fields Building,
75 Fox Street,
Johannesburg 2001.

London Office
Greencoat House,
Francis Street,
London SW1P 1DH.

United Kingdom Registrar
Barclays Registrars Limited,
Boume House,
34 Beckenham Road,
Beckenham, Kent BR3 4TU.

9 January 1991

A MEMBER OF THE GOLD FIELDS GROUP

مكده من الذهب

Salomon Brothers

GLOBAL LEADERSHIP IN M&A

**1990 — ANOTHER GROWTH YEAR FOR SALOMON BROTHERS.
\$70 BILLION OF MERGERS AND ACQUISITIONS ON 5 CONTINENTS
THROUGH 21 OFFICES WORLDWIDE.**

<i>Client and Assignment</i>	<i>Approximate Size</i>	<i>Client and Assignment</i>	<i>Approximate Size</i>
Aegle Group plc (previously The WCRS Group plc) Divestiture of Creamer Dickson International (Public Relations Division) to Eurocom S.A.	\$20,400,000	Albro, Cia. de Azúcares y Alimentación S.A. Financial advisory.	Undisclosed
Alecan Aluminum Ltd. Divestiture of minority participation in Inespal S.A. Instituto Nacional de Industria.	Undisclosed	Editions Frequences Sale of the company to Editions Mondiales.*	\$11,000,000
American Exploration Company Acquisition of Conquest Exploration Company.	\$155,000,000	Filofax Group PLC Sale of the company to Tranwood Consortium Fund.	\$10,880,000
American Information Technologies Corporation/Bell Atlantic Corporation Acquisition of Telecom Corporation of New Zealand Limited.	\$2,400,000,000	Fleet/Norstar Financial Group, Inc. Divestiture of a portion of Visa MasterCard credit card portfolio to Norwest Bank Iowa, National Association.	Undisclosed
Ausimont N.V. Exchange of Ausimont's Spinetta, Italy, Organic Peroxides Production Unit for the Thorofore Fluoropolymers Production Facility of Atochem North America, Inc.	Undisclosed	Florida National Banks of Florida, Inc. Sale of the company to First Union Corporation.	\$850,000,000
Ausimont N.V. Divestiture of interest in Societa Italiana Additivi per Carburanti S.p.A. to The Associated Ocel Company Limited.	Undisclosed	Fortune Financial Group, Inc. Financial advisory.*	Undisclosed
Avalon Marketing, Inc. Divestiture of BMK, Inc. to BMK Acquisition, Inc., a new company formed by Grauer Wheat Investments, Inc., Acadia Partners, L.P. and The Prudential Insurance Company of America.	\$45,500,000	Framatome S.A. Financial advisory with regard to shareholder restructuring.	Undisclosed
Axel Johnson Inc. Divestiture of Industrial Tectonic to Overseas Partners International.	Undisclosed	French Ministry of the Economy, Finance and Budgets Financial advisory in connection with a share exchange between Banque Nationale de Paris and L'Union des Assurances de Paris.	Undisclosed
Banco Bilbao Vizcaya, S.A. Acquisition of Lloyds Bank Portugal.*	Undisclosed	Galerias Lafayette Financial advisory in relation to leasehold acquisition.	Undisclosed
Banco Espírito Santo e Comercial de Lisboa Financial advisory regarding privatization.*	Undisclosed	Gebrüder Röchling Divestiture of Schorch GmbH to AEG Aktiengesellschaft, a subsidiary of Daimler-Benz AG.	Undisclosed
Bancorp Hawaii, Inc. Acquisition of FirstFed America, Inc.	\$140,800,000	General Oriental Investments Limited Divestiture of investment in Cavenham Forest Industries Inc. to affiliate of Hanson Industries.	\$1,300,000,000
Bank of the West Acquisition of Central Bank.	\$54,000,000	General Oriental Investments Limited Acquisition of 49.3% of Newmont Mining Corporation from an affiliate of Hanson Industries.	\$1,300,000,000
Beaumont Company Sale of the company to ConAgra, Inc.	\$2,300,000,000	Generalfin de Catalunya Merger between Caja de Pensiones and Caja de Barcelona.	Undisclosed
Berkshire Hathaway Inc. Sale of interest in NHP, Inc.	Undisclosed	Gerber Products Company Divestiture of child subsidiary to an affiliate of KD Equities.	Undisclosed
CalFed Inc. Divestiture of Anglo American Insurance Company Limited to Mazard P.L.C., an affiliate of John Head & Partners L.P.	\$105,600,000	Green Bay Packaging Inc. Financial advisory.	Undisclosed
Canfor Corporation Divestiture of Alberta High Level operations in Daishowa Canada Co. Ltd.	Undisclosed	Grove Italia SpA Restructuring.	\$108,000,000
CBS Inc. Financial advisory in connection with a share repurchase.*	\$2,000,000,000	Grupo Ercros S.A. Divestiture of the Pharmaceutical Division of Cia. Española de la Penicilina y Antibióticos, S.A. to Paribas Santé S.A.	Undisclosed
Chemetal GmbH Divestiture of 50% equity stake in metal casting products business to SKW Trostberg AG, a subsidiary of VIAG AG.	Undisclosed	GTE Corporation Acquisition of Providence Journal Telecommunications, Inc. from Providence Journal Company.	\$710,000,000
Compagnie Financière Michelin Acquisition of The Uniroyal Goodrich Tire Company.	\$1,500,000,000	Holiday Corporation Divestiture of Holiday Inn Hotels to PLC.	\$2,225,000,000
Compagnie Générale des Eaux Acquisition of I. Krüger A/S from Danisco A/S.	Undisclosed	Huslon Microelectronics Corporation Acquisition of a minority interest in SEEQ Technology Incorporated.	\$5,300,000
Compañía Embotelladora Argentina S.A.I.C. and Seven-Up Concesiones S.A.I.C. Sale of the companies to Grupo PPR.	Undisclosed	Huntington Holdings, Inc. Divestiture of The Unitek Equipment Division of Weldmatic Corp. to JAFCO America Ventures, Inc.	Undisclosed
Contel Corporation Acquisition of certain southeastern cellular franchises from McCaw Cellular Communications, Inc.	\$1,300,000,000	International Finance Corporation Advised the Special Committee of the Board of Directors of the merger of the company into KH Acquisition Corporation, a wholly owned subsidiary of American International Group, Inc.	\$1,300,000,000
Contel Corporation Merger with GTE Corporation.*	\$6,240,000,000	IRIS Graphics, Inc. Sale of the company to Scitex Corporation Ltd.	\$35,000,000
CRI Insured Mortgage Association, Inc. Exchange offer for American Insured Mortgage Investors L.P. units.*	\$525,000,000	ISS Servisystem Comercio e Indústria Ltda., a subsidiary of ISS International Service Systems A/S Acquisition of Well's Restaurantes S.A. and Well's Administradora S.A.	Undisclosed
Crompton Knowles Corporation Acquisition of Atlantic Industries, Inc. from Great American Management, Inc.	\$43,000,000	J.P. Industries, Inc. Sale of the company to T&N plc.	\$370,000,000
Dayton Hudson Corporation Acquisition of Marshall Field Company from B.A.T. Industries p.l.c.	\$1,040,000,000	Jindo Corporation Acquisition of the Retail Fur Group, a division of The Fur Vault, Inc.	Undisclosed
DeGussa AG Divestiture of Ferd. Wagner GmbH & Co. KG, a wholly owned subsidiary, management.	Undisclosed	Johnson Controls, Inc. Divestiture of Pan Am Environmental Systems, Inc. to NDE Environmental Corporation.	Undisclosed
Digital Communications Associates Divestiture of network communications group to Racal Electronics PLC.	\$28,000,000	Joraban (No. 26) PLC (Andrew Lloyd Webber) Acquisition of The Really Useful Group plc.	\$131,000,000
Domtar Inc. Divestiture of Miranol Inc. to Rhône-Poulenc Inc.	Undisclosed	Katun Corporation Sale of minority interest to leading Japanese corporation.	Undisclosed

*Pending

Limited: London (TSA Member), (Representative Office) S.A.: Salomon Brothers Inc. New York, Atlanta, Chicago, Dallas, Angeles, Francisco, Singapore (Representative Office), Zurich (Representative Office)

مكاتبنا العالمية

<i>Client and Assignment</i>	<i>Approximate Size</i>	<i>Client and Assignment</i>	<i>Approximate Size</i>
Keystone-Arapahoe Limited Partnership Sale of partnership interests in Keystone Resort Colorado to The Ralston Purina Company.	Undisclosed	Southwestern Bell Corporation Acquisition of a controlling interest in Telefonos México, S.A. de C.V. by a consortium consisting of Southwestern Bell Corporation, France Telecom and Grupo Carso.*	\$1,760,000,000
Koolmees Holdings, B.V. and Koolmeesw Holdings, B.V. Acquisition of Grupo Torras, S.A.	\$1,600,000,000	Southwire Company Acquisition of certain of AT&T Nassau Metals Corporation, a wholly owned subsidiary of American Telephone And Telegraph Company.	Undisclosed
Lafarge Coppée S.A. Financial advisory.	Undisclosed	Sovran Financial Corporation Merger with The Citizens and Southern Corporation to create C&S/Sovran Corporation.	\$4,700,000,000
Leybold AG Divestiture of Analysis Division to Rosemount Inc., a wholly owned subsidiary of Emerson Electric Co.	Undisclosed	Technology Applications (Thailand) Limited Acquisition of majority interest in Code-A-Phone Corporation.	Undisclosed
Leybold AG Divestiture of Freeze Drying Activities to Finn-Aqua Santasalo-Sohlberg Corp.	Undisclosed	The Bell Group International Limited Divestiture of Bryanston Insurance Company Limited to GFA International Limited.	Undisclosed
Lilley plc Acquisition of Hatfield Estates plc.	\$30,000,000	The CIT Group, Inc. Acquisition of Fidelcor Business Credit Corp. from First Fidelity Bancorp.*	Undisclosed
LIN Broadcasting Corporation Advised the Special Committee of the Board of Directors the issuance of securities in connection with an exchange of with Metromedia Company.	\$850,000,000	The Fairchild Corporation Divestiture of Enviro Holding Company to North West Water Group Plc.	\$75,000,000
Lincoln National Corporation Divestiture of Preferred Financial Corporation.	Undisclosed	The Foxboro Company Sale of the company to Siebe plc.	\$656,400,000
Masco Corporation Sale of Compac Corporation, Fulton Manufacturing Corporation and Reese Products, Inc. to TriMas Corporation.	Undisclosed	The Talmor Home Federal Savings and Loan Association of Illinois Financial advisory.	Undisclosed
Motel 6, L.R. of the company to Accor S.A.	\$2,300,000,000	The Travelers Corporation Divestiture of Travelers Mortgage Services, Inc. to General Electric Mortgage Capital Corporation.	Undisclosed
Nashua Corporation Divestiture of International Office Systems Group to Gestetner Holdings PLC.	\$201,800,000	Time Warner Inc. Divestiture of Scott, Foresman and Company to Harper & Row, Publishers, Inc., a subsidiary of The News Corporation Limited.	\$455,000,000
National Intergroup, Inc. Divestiture of interest in National-Southwire Aluminum Company to Southwire Company.	\$40,000,000	TransOhio Savings Bank Sale of branches.*	Undisclosed
York State Electric and Gas Company Acquisition of New York State distribution system from Columbia Gas of New York, Inc.*	\$55,000,000	Trau SpA Sale of the company to Compagnie Internationale d'Ameublement, a subsidiary of Pinault S.A.	Undisclosed
NI Industries, Inc. Acquisition of Lockheed Corporation.*	\$2,528,000,000	Triton Container Partners Corporation Fairness opinion in connection with the sale of by certain Triton Containers Partners limited partnerships to TRIPAC Limited.*	Undisclosed
Noble Drilling Corporation Acquisition of Transworld Drilling Company, a wholly owned subsidiary of Kerr-McGee Corporation.*	\$75,000,000	Trustcorp, Inc. Sale of the company to Society Corporation.	\$500,000,000
Pacific Telesis Group Merger with Cellular Communications, Inc.*	\$1,500,000,000	TVX Broadcast Group Inc. Divestiture of TVX of New Orleans, Inc. to an investor group.	\$7,100,000
Pennsylvania Enterprises, Inc. Merger with NUI Corporation.*	\$420,000,000	U.S. Leasing International, Inc., a subsidiary of Ford Motor Company of United States Instrument Rentals, Inc. to AT&T Capital Corporation.	Undisclosed
Perntech Papers Inc. Sale of the company to Williams Industries, Inc.	\$75,000,000	Union Exploration Partners, Ltd. Merger into Unocal Exploration Corporation.	\$4,619,000,000
Phillip Brothers Oceanic Inc. Divestiture of the Taiwan Hut Franchise to Jardine Matheson Holdings Limited.	Undisclosed	United Engineers, Limited Acquisition of Goodman Medical Supplies Ltd.	Undisclosed
Phillips Industries Inc. Sale of the company to Tomkins PLC.	\$550,000,000	United Parcel Service of America, Inc. Acquisition of minority in Boxes Etc.	Undisclosed
Pinnacle West Capital Corporation Defense advisory.	\$1,821,000,000	United States Can Company Merchant banking investment by Salomon Brothers Holding Company Inc in the company.	Undisclosed
Portman Companies Sale of The Portman, a San Francisco luxury hotel.	\$100,000,000	United Technologies Corporation Divestiture of 75% interest in Diavia S.p.A. and Aura S.r.L. to General Motors Corporation.	\$68,000,000
Premium Beverages Inc. Advised the Board of Directors on the company's valuation and provided a fairness opinion in connection with its sale to Joseph E. Seagram & Sons, Inc.	Undisclosed	United Technologies Corporation Divestiture of Global Automotive Sealing Systems Group to Schlegel Corporation, a wholly owned subsidiary of BTR plc.	\$191,000,000
Prime Motor Inc. Sale of Howard Johnson Franchise System and Ramada Franchise System, Inc. to Franchise Holdings Corporation.	\$171,000,000	Upjohn Company Divestiture of Upjohn HealthCare Services, Inc. to Olsten Corp.	Undisclosed
Public Service Company of New Hampshire Represented the Official Committee of Unsecured Creditors in bankruptcy proceeding in negotiations with Northeast Utilities.*	\$2,400,000,000	US WEST, Inc. Stock-for-stock exchange offer to the public shareholders of its 81% owned subsidiary, US WEST NewVector Group, Inc.*	\$350,000,000
Regional Bancorp Defense advisory.	Undisclosed	Voe-Canhedo Consortium Acquisition of 61% controlling interest in Viação Aérea São Paulo (VASP).	\$43,000,000
Renown Incorporated Acquisition of Aquascutum Group PLC.	\$126,000,000	Walwyn Inc. Merger with Midland Doherty Financial Corporation to form Midland Walwyn Inc.	\$40,000,000
Resorts International, Inc. Represented the company in bankruptcy proceeding.	\$25,000,000	Wang Laboratories, Inc. Divestiture of Wang Financial Information Services Corp. to Infotechnology, Inc.	\$18,000,000
Richfood Holdings Inc. Divestiture of Garner Wholesale Merchandisers, Inc. a subsidiary of M Corporation.	\$16,000,000	Western Union Corporation Divestiture of Business Services Group to American Telephone And Telegraph Company.*	\$180,000,000
Salomon Inc. Purchase of Lehman Management Co. from Shearson Lehman Hutton Inc.	\$28,000,000	Wheelabrator Technologies Inc. Advised the Board of Directors in connection with a share exchange and merger with Waste Management, Inc.*	\$490,000,000
Salomon Inc and GEICO Corporation Divestiture of interest in Bond Investors Group, Inc. to MBIA Inc.	Undisclosed	Xerox Financial Services, Inc. Divestiture of NAVCO Corp. to General Motors Acceptance Corporation.*	\$250,000,000
San Diego Gas & Electric Company Merger with SCE Corp.*	\$2,600,000,000		
Scott Paper Company Acquisition by joint ventures with Feldmühle AG of the Sanitary Tissue Business of Feldmühle AG, a wholly owned subsidiary of Feldmühle-Nobel AG.	\$260,000,000		
Soo Line Corporation Advised the Special Committee of the Board of Directors in connection with the to Canadian Pacific Limited of the 44.2% of outstanding common stock not already owned by Canadian Pacific Limited.	\$204,000,000		

Salomon Brothers

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*Pending

Salomon Brothers AG: Berlin, Frankfurt Salomon Brothers Canada Inc: Toronto Salomon Brothers Asia Limited: Tokyo Salomon Brothers Australia Limited: Sydney, Melbourne Salomon Brothers Hong Kong Limited: Hong Kong Salomon Brothers Taiwan Limited: Taipei

مكرامن الاصيل

UK COMPANY NEWS

Financial effects of buying Gateway still being felt Asda falls to £60.8m as interest bill takes toll

By John Thornhill

ASDA, the supermarket chain, is still suffering from the financial effects of buying 60 Gateway stores for £705m in October 1989.

The company announced yesterday that interim pre-tax profits fell by 27 per cent as a result of substantially higher interest payments resulting from the debt taken on to finance the purchase of the Gateway stores - and a rise in the cost of its furnishings businesses.

In the 28 weeks to November 10, taxable profit fell from £83.5m to £60.8m, much in line with what analysts had been expecting.

Mr John Hardman, chairman, said that while the whole of the Gateway investment in closing that performance gap which will generate a very high level of organic growth," Mr Hardman said.

At the operating level, Asda's profits were strongly ahead at £107m (£81.8m) on turnover up 42 per cent.

The former Gateway stores contributed fully for the first time making £28m (£3.2m) of Asda

Stores' operating profits of £100.9m (£76.5m). But the interest bill for the period amounted to £42m (£4.5m receivable) even though Asda capitalised £16.5m (£18.7m).

Asda's furnishings businesses also eroded group profits as Allied Marples reported an operating loss of £3.2m (£3.8m profit) and Asda's 25 per cent share of MFI resulted in a charge of £4.2m (£2.8m loss).

Gazeley, the property arm, increased its contribution to £2.5m (£5.2m).

With net debt of £900m at the end of the period, Asda's interest bill was £42m.

But Mr Hardman said this would be slowly reduced. "We will start unwinding our capital expenditure programme as we move through this year and we are fully confident that by the end of 1992 we will have our gearing in a highly satisfactory position," he said.

Earnings per share fell from 4.76p to 3.52p, although the interim dividend is held at 1.85p.

MFI Furniture Group, owned through a £718m leveraged buy-out from Asda, reported a pre-tax loss of £16.9m in the six months to November 10 compared with £8.2m. Operating profits rose by 11 per cent to £20.6m on turnover up by a similar percentage to £320m. But interest payments climbed to £34.5m (£30.1m).

See Lex

Further delay likely for BCMB sale

By John Murray Brown in Ankara

A FURTHER delay is expected in the sale of British and Commonwealth Merchant Bank (BCMB) to the Bank of England and the Turkish banking and industrial group bidding for BCMB, to present shareholders.

BCMB was put into administration after the collapse of the British and Commonwealth Financial Services group in June 1989.

No date has yet been set for signing the agreement, but after negotiations last week between Cukurova and administration Ernst & Young, a deal agreement is expected to be ready in the next 10 days.

A price has now been agreed, believed to be about £1.5m lower than the original bid of between £2.5m and £5m. A close inspection of the BCMB loan book, in particular its exposure to UK local authority swaps, is thought to have led to the lower price.

Cukurova has asked Morgan Grenfell, the merchant bank, to arrange a £100m standby loan to enable the new owners to pay off BCMB depositors, currently prevented from withdrawing their deposits because of the administration order.

The Bank of England is to seek assurance from the Turkish regulatory authorities, with a final sale agreement not expected before March.

It is also understood to have sought assurances from Cukurova that it did not intend to use BCMB to fund its Turkish operations, or expose the bank to Turkish loan business.

Despite the current recession, sales volumes are holding up well Electricity companies on course for targets

By Juliet Sycharava

THREE OF the 12 regional electricity companies privatised last month yesterday announced profits for the six months to September 30 1990.

There were no surprises: all three companies met their targets of trading figures when they published full-year forecasts at privatisation, and all yesterday's three are on course to meet their targets.

Also, in spite of the recession, all three said that sales volumes were holding up well. Northern Electric was even slightly better than had been expected. The company reported pre-tax profits of £11.7m on an historical cost basis.

This represents 47.9 per cent of its pre-tax forecast of £24.4m for the full year. On a current cost basis, pre-tax profits were £11.7m. Turnover totalled £561.1m.

Post-tax profits were £8.4m on an historical, and £8.4m on a current cost basis.

"We are doing a touch better than expected," said Mr David Morris, chairman. "There has been a little more growth than anticipated, in both the commercial and domestic sectors."

Industrial sales, he said, had suffered somewhat from the loss of customers in the new competitive market, but distribution volumes were holding up reasonably well. Mr Morris said he was confident of meeting the full-year forecasts.

On a pro-forma basis, where results are calculated as if a company's new post-privatisation capital structure and taxation liability had been in place for the full six months, Northern reported an historical cost post-tax profit of £11.7m, 47.9 per cent of the £24.4m anticipated for the full year. This gave pro-forma earnings per share of 14.6p on an historical cost basis, and 3p on a current cost



Duncan Ross: Most sales and profits in the second half

basis. In its flotation prospectus, Northern had said that its dividend for the year of 11.38p.

Northern has a high proportion of industrial customers, its sales volumes are fairly constant through the year, although the higher value of sales which increase in the winter mean the company still expects a little more than 50 per cent of its sales in the second half.

The demand for new connections in the Northern region, Mr Morris said, was increasing. "We are not in a position as far as that is concerned."

East Midlands Electric announced historical cost pre-tax profits of £14.8m, compared with a forecast for the full year of £28.9m. On a current cost basis, the company made a £2.6m loss before tax, compared with profit of £50.3m forecast for the year. Turnover amounted to £561.1m.

Post-tax profit was £11.7m on an historical cost basis, compared with a £2.6m current cost loss.

Midlands reported pro-forma earnings per share of 2.8p on an historical cost basis, and current cost loss of 4.4p per share.

Regional companies expect to make a small profit or small loss on an historical cost basis at the interim stage, and we would expect a small profit," said Mr John Harris, chairman, who added that, in the event of unforeseen circumstances, the directors would recommend a single final dividend of 10.55p.

Because East Midlands has a significant proportion of weather-sensitive domestic customers, it expects to make about 50 per cent of its sales in the second half. These costs are largely fixed, the margin on sales will be higher, and the

growth will come primarily from the high-value domestic market, profit can be expected to be significantly higher over this period.

"We will have lower volume growth this year," said Mr Harris, "but we think that into account in our forecasts. We expect about 1 to 2 per cent next year, unless the recession really deepens."

The supply business, he said, had also been modestly profitable. Because East Midlands had taken out fewer contracts to cover its electricity purchasing than most of the regional companies, it was able to benefit from the lower-than-expected prices in the spot market, or pool.

Southern Electric announced pre-tax profits of £23.7m on an historical cost basis, against a forecast for the full year of £122.7m. On a current cost basis, the company, which is chaired by Mr Duncan Ross, made a pre-tax loss of £2.2m. This was, he said, in line with its expectations.

Historical cost post-tax profits were £11.7m, compared with a current cost loss of £7.1m. On a pro-forma basis, losses per share on a current cost basis were 5.3p. The company reaffirmed its commitment to pay a 10.12p dividend at the end of the year.

Like Northern, Midlands, Southern expects about 60 per cent of its sales volume and a larger percentage of its profits in the second half of the year.

"We are predominantly a domestic board, and we get more domestic units in the winter," said Mr John Deane, finance director. However, he pointed out, more units are also sold over the period, bringing the overall value of sales down.

Fresh recipe helps scoop up ice-cream dream

By Clay Harris, Consumer Industries Editor

MR HENRY Clarke's ice-cream dreams moved closer to reality yesterday, but the recipe has changed a bit on the way.

Hillsdown Holdings, the diversified food group, has moved to sell its ice-cream business, one of Britain's largest after Lyons Maid, outright to Mr Clarke's Yelverton Investments for about £20m.

The joint venture envisaged when the deal was announced in August was abandoned because of MFI Exchange objections.

At completion, Mr Clarke, an American who promoted the Klondike bar, is selling the novelty ice-cream, which take control of a business comprising three plants in the West Midlands and the Horshams, Fleets and Lewis Bros brands.

As part of the all-paper transaction, Hillsdown will take a 10.75 per cent equity stake in Yelverton, at present an investment company.

Yelverton's USM-traded shares were suspended at 39p yesterday, pending publication of a detailed financial and approval by shareholders.

Yelverton is to change its name to Clarke Foods and become the only pure player in ice-cream on the stock market.

The Clarke family's 39 per cent stake in Yelverton will be diluted to 31 per cent by the sale to Hillsdown, which said it viewed its shareholding as a "long-term investment".

Hillsdown will not receive any cash immediately, the balance of the £20m consideration being £5.48m of 6 per cent and 10 per cent preference shares.

The new owner will assume about £2.5m of debt. Mr Clarke said yesterday that two of his sons will help to manage the business, were attending a 10-day university course on ice-cream production. "They give a prize for the best vanilla and I told both of them that they shouldn't come back unless they won it."

Summer shares suspended at 15p

Summer International, the training and educational services group, yesterday suspended its shares at 15p.

The company said that payment on January 11 of the preference dividend would be deferred.

Officials at Summer were not available for comment yesterday. Last November the company issued a statement in which it said that current trading was "satisfactory in comparison with the previous year".

Profits in the six months to March 1990 were sharply lower at £10.1m (£10.1m).

In July 1991, Summer sold Linguarama to BPP Holdings. It has already received more than £10m from BPP but how much more it can secure from the sale depends on Linguarama's 1990 results.

Pilkington to sell insulation offshoots

PILKINGTON, the glass group, is selling two insulation subsidiaries to G&H Montage, a leading German insulation contracting company.

The sale is an undisclosed sum. It is a strategic review of peripheral businesses. The offshoots being sold are Kitsons Insulation Contractors and Kitsons Environmental Services. These formed part of the insulation division which made an operating profit of £5.4m in the year to end-March 1990 out of a group total of £369.9m, but which incurred a

£1.7m operating loss in the last half of the current year.

Mr Andrew Robb, finance director, said that the group was not selling its insulation manufacturing and contracting businesses. However, he said more disposals of other activities could be expected.

Some analysts are expecting Pilkington to sell its insulating glass business, whose future is currently being reviewed, although Mr Robb said a decision would not be made for some time yet. Pilkington shares rose 3p to 190p yesterday.

DIVIDENDS ANNOUNCED

Company	Dividend	Date of payment	Current Cost	Historical Cost
Alexanders Hedges	1.00	Mar 22	1.00	1.00
Asda Group	1.00	Apr 9	1.00	1.00
Banks (Midney Co)	2.00	Apr 9	2.00	2.00
Beepat	1.00	Feb 22	1.00	1.00
Osborn	1.00	Mar 4	1.00	1.00
Other Business	1.00	Feb 22	1.00	1.00

Dividends shown pence per share net except where otherwise stated. "Estimated after allowing for scrip issues. (On capital increased by share and treasury issues).

East Midlands Electricity plc

INTERIM RESULTS TO 30 SEPTEMBER 1990

I am delighted to welcome East Midlands Electricity's new shareholders. The Company is committed to the provision of quality service, rigorous control of costs and vigorous marketing of products and services.

Our half year results reflect the traditional seasonality of our business and we are confident of achieving the full year profit forecast in the prospectus. The recent disruptions to supply caused by the exceptional weather conditions have not had a material effect on this profit forecast. The Directors expect in the event of unforeseen circumstances to recommend a single final dividend of 10.55p net per ordinary share payable in October 1991.

I was pleased that we were the first Regional Electricity Company to have an excellent short term credit rating. This reflects our performance and management strengths.

John Harris

JOHN HARRIS
Chairman
11 January, 1991

Unaudited Group Results for the 6 Months to 30 September 1990

	Historical Cost	Current Cost
Turnover	£m 561.1	£m 561.1
Profit/(Loss) before tax	14.8	(2.6)
Taxation	3.1	3.1
Profit/(Loss) after tax	11.7	(5.7)
Extraordinary items	2.1	2.1
Profit/(Loss) attributable to Shareholders	9.6	(7.6)

1. Earnings per ordinary share shown as the number of shares in issue during the 6 months to 30 September 1990 are representative of the group's position following implementation of the new capital structure. Pro forma earnings per ordinary share for the 6 months to 30 September 1990 are £1.44p. Pro forma earnings per ordinary share for the 6 months to 30 September 1990 are £1.44p. The earnings of £21.1 million are £21.1 million less £1.1 million of tax. The earnings of £21.1 million are £21.1 million less £1.1 million of tax.

2. The interim accounts for the 6 months to 30 September 1990, which are unaudited, were prepared on the basis of accounting policies set out in the prospectus dated 21 November 1990 and are consistent with the accounting policies adopted for the 6 months to 30 September 1990.

3. Results for the 6 months to 30 September 1990 are compared with the results for the 6 months to 30 September 1989. The period would be appropriate in view of the commercial and regulatory environment in which the Company operated since 21 March 1990 and the fact that the Company was privatised on 21 March 1990. The financial information contained in the interim statement does not amount to statutory accounts within the meaning of Section 240 of the Companies Act 1985.

4. Taxation for the six months ended 30 September 1990 is provided on the basis of the estimated effective tax rate for the year ending 31 March 1991. This is included in the taxation charge at a rate of 25% of the pre-tax profit of the interim statement and the tax credit attaching thereto.

5. Extraordinary items relate to privatisation costs.

East Midlands Electricity

Electricity plc. Registered Office: Coppe Road, Arnold, Nottingham NG5 7HX.

NORTHERN ELECTRIC plc

INTERIM RESULTS



I am delighted to welcome this opportunity, so soon after privatisation, to welcome all Northern Electric's new shareholders.

Our half year results cover a period prior to flotation and before the associated capital restructuring undertaken. In the light of these results, the Directors remain confident that the profit forecast for the full year, as set out in the prospectus, will be achieved. As indicated in the Offer for Sale, there will be no interim dividend.

The Board is extremely pleased with the initial success of the flotation. Our objectives are to achieve growth in profit and to promote enterprise, efficiency and quality of service in our businesses, to provide customer satisfaction and a sound investment for our shareholders.

David Morris
Chairman

RESULTS FOR THE SIX MONTHS ENDED 30th SEPTEMBER 1990

	Current Cost Unaudited £m	Historical Cost Unaudited £m
TURNOVER	359.9	359.9
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	18.0	35.0
Taxation (Note 4)	9.6	9.6
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	8.4	25.4
Extraordinary Items (Note 5)	3.3	3.3
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	5.1	22.1

NOTES

1. BASIS OF PREPARATION
The interim accounts (unaudited) for the six months ended 30 September 1990 have been prepared on the basis of the accounting policies set out in the prospectus dated 21 November 1990 concerning Listing Particulars of Northern Electric plc and are consistent with the accounting policies adopted for the year ended 31 March 1990.

2. PRO FORMA EARNINGS
Pro forma profit on ordinary activities after taxation: £5.7m
Pro forma earnings per ordinary share: 14.6p
Pro forma earnings per ordinary share have been calculated by dividing pro forma profit after taxation by the number of ordinary shares in issue at 31 March 1990.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION
Profit includes interest receivable of £4.2m, which is included in the interim dividend receivable from the National Grid financing plc.

4. TAXATION
Taxation for the six months ended 30 September 1990 has been provided on the basis of the estimated effective tax rate for the year ending 31 March 1991.

5. EXTRAORDINARY ITEMS
Extraordinary items comprise privatisation and restructuring costs incurred in the half year ended 30 September 1990.

NORTHERN ELECTRIC

Electric plc, Carliol House, Market Street, Newcastle upon Tyne NE1 6NE.

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FINANCIAL TIMES
BUSINESS RESEARCH CENTRE

EUROPEAN
RELOCATION

The FT proposes ■ publish this survey on

June 17th 1991.
It will ■ of particular interest to 61,000 businessmen involved in decision making about Office Property who are also regular FT readers. If you want ■ reach this important audience, call Hugh Westmacott ■ 0532 454969 ■ fax 0532 423516.

FT SURVEYS

PUBLIC WORKS LOAN BOARD RATES

Effective January 9		Semi-annual rates 12 months		12 months	
Term	Rate	Rate	Rate	Rate	Rate
Over 1 up to 2	12 1/4	12 1/4	12 1/4	12 1/4	12 1/4
Over 2 up to 3	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2
Over 3 up to 4	12 3/4	12 3/4	12 3/4	12 3/4	12 3/4
Over 4 up to 5	13 1/4	13 1/4	13 1/4	13 1/4	13 1/4
Over 5 up to 6	13 1/2	13 1/2	13 1/2	13 1/2	13 1/2
Over 6 up to 7	13 3/4	13 3/4	13 3/4	13 3/4	13 3/4
Over 7 up to 8	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Over 8 up to 9	14 1/2	14 1/2	14 1/2	14 1/2	14 1/2
Over 9 up to 10	14 3/4	14 3/4	14 3/4	14 3/4	14 3/4
Over 10 up to 15	15 1/4	15 1/4	15 1/4	15 1/4	15 1/4
Over 15 up to 25	15 3/4	15 3/4	15 3/4	15 3/4	15 3/4
Over 25	16 1/4	16 1/4	16 1/4	16 1/4	16 1/4

*Non-quota loans B are 1 per cent higher in each case than non-quota A. †Equal principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

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Notice to the Holders of Warrants to subscribe ■ shares of common stock of

KOMATSU LTD.
(the "Company")

Issued in conjunction with an issue by the Company of U.S.\$300,000,000 ■ per cent. ■

"Adjustment of Subscription Price"

Notice is hereby given pursuant to Clause 3 of the Instrument dated 28th January, 1989 under which ■ Warrants were issued that as a result of the issuance of U.S.\$400,000,000 4 1/2 per cent. Bonds due 1994 with Warrants on 20th December, 1989 by the Company with the initial subscription price per share of Yen 963 determined on ■ 1989 being less than the current market price of Yen 1,066.30 per share applicable as at that date, the Subscription Price at which shares are issuable upon ■ Warrants be adjusted as follows:

- 1) Subscription Price before adjustment: Yen 952.40 per share
- 2) Subscription Price after adjustment: Yen 947.50 per share
- 3) Effective Date of the adjustment: 21st December, 1990

KOMATSU LTD.
3-6, Akasaka 1-chome, Minami-Ku, Tokyo, Japan
By: THE FUJI BANK AND TRUST COMPANY

10th January, 1991

UK COMPANY NEWS

Southern
Business
rises 37%

By David Owen

SOUTHERN BUSINESS Group, the USM-quoted photographer and vending machine contractor, reported a 37 per cent advance from £18.25m to £24.92m in taxable profits for the year to September.

Turnover rose 41 per cent to £122.5m. The group is shortly to apply for a Stock Exchange listing. A final dividend of 1.62p (1.34p) is recommended, making a total of 2.66p (1.86p) - an increase of 31 per cent adjusted for last February's 3-for-1 scrip issue.

However, earnings per share fell from 10.25p to 9.67p reflecting the inclusion of a £2m additional provision. The company's financial accounting policies have been under close scrutiny in the City, and the provision was "purely prudential to enable us to show a full tax charge."

Before the provision, earnings amounted to 12.86p. The Surrey-based group has reached a settlement at a water-aid in that it has been found to have been in breach of the provisions of the Companies Act through trading operations during the year under review.

The corollary is that the traditionally low rate has started to edge up from 10 per cent to 12 per cent. Mr Roger Lippenny, finance director, said that a further small increase in the dividend rate was likely in the current year. He said that the £2m provision was "a genuine cost of doing business."

The shares rose 1p to 68p.

Fresh approach
for Touchstone

A ■■■ property investor, has approached Touchstone, the computer services group, regarding a possible bid for the company.

Touchstone is currently the subject of a hostile £5.6m all-share offer from Stratagem. Brown also said that Touchstone had approached about a potential offer for Brown in November.

Reliance Security
advances 25%

Reflecting the benefits of ■■■ investment as well as a growing market, Reliance Security Group increased interim profit by 25 per cent. For the 26 weeks to October 26 pre-tax profits rose to £1.38m (£1.03m) or 11.4p ahead 35 per cent to £26.24m (£19.85m). Earnings per share rose 7.6p (6.5p) and the dividend is 1.5p (1.5p).

Interest charges hold
back Jurys Hotel

Jurys Hotel Group, which ■■■ mainly in the Republic of Ireland, saw its profits held back by interest charges in the half year to October 31.

Turnover rose 27 per cent from £111.54m to £141.65m (£13.42m). But trebled interest charges of £1918,000 limited the pre-tax rise to 11 per cent, at £2.59m (£2.33m). Earnings were 9.89p (9.37p). The interim dividend is held at 2p.

Weekly net asset value

Leveraged Capital Holdings NLV, as 7-1 ■■■ US\$ 326.81

Listed in the Amsterdam Stock Exchange

Information: Penson, Harding & Penson NLV

BHH International Finance PLC

Guaranteed Secured Floating Notes due ■

For the period from January 7, 1991 to April 1, 1991 the Notes will carry an interest rate of 14.375% per annum

Interest of ■■■ of £1,000,000

The relevant interest payment date is April 8, 1991.

Paribas Luxembourg Anonymise

Wheeling and dealing to restore a name

Jane Fuller gives the background to the DTI investigation of the Norton Group

NORTON GROUP, the motorcycle maker under investigation by the Department of Trade and Industry, was still ■■■ in talks with its stockbrokers TC ■■■ yesterday over the ■■■ of its £5.5m rights issue.

Coombs, the underwriters, had failed to come up with about £1m by Tuesday's extended deadline. The poorly supported £5.5m ■■■ and the controversial German acquisition which it helped to finance are among the events which the DTI inspectors are likely to cover in ■■■ investigation of Norton's activities over the past three years.

Other areas likely to be ■■■ are Norton's ■■■ takeover of Minty, which brought ■■■ to the main market in June 1988, and the group's ■■■.

Such ■■■ activities have attracted relatively little attention, while public interest has been ■■■ in Norton's ■■■ to ■■■ the famous motorcycle marque. The loss-making ■■■ has continued to ■■■ in funds from less glamorous parts of the group.

A serious ■■■ in Norton's share price started after the ■■■ came to the main market, when its shares stood at ■■■ 260p. This compares with the ■■■ rights issue price of 20p and yesterday's close of 18p.

The acquisition of FUS ■■■, ■■■ and Verwaltungs, the German fasteners maker, aroused ■■■ interest and the vendor was part of a Channel ■■■ trust company set up to ■■■ the activities of Mr

James Tildesley, Norton's ■■■ executive chairman and principal shareholder.

The £5.2m deal, approved by 80 per cent of shareholders, was completed on Friday. This was in spite of the delay in concluding the rights issue. The issue's size ■■■ that ■■■ was temporarily ■■■ with the majority of the group's enlarged share capital.

FUS was ■■■ by Mr Tildesley's former ■■■ fasteners company, FUS, in 1985. Mr Tildesley, who had ■■■ in Spain after selling ■■■ in McKechie, took up Norton's chairmanship, a post previously held by ■■■ Philippe Le Roux who ■■■ chief ■■■.

At the time, Norton was acquiring Pro-Fit Piping Components, of ■■■ Jersey, for £2.7m. The ■■■ was ■■■ Pro-Fit should provide ■■■ in the development of Norton's engine technology. The chief critic of the German acquisition has been Mr Yehuda Mendelson, head of Pro-Fit, who took nearly a third of the purchase price in Norton shares.

Mr Mendelson has not only seen the value of his stake plummet, but also his profitable business has continued to ■■■ elsewhere in the group.

A point of concern about the FUS purchase ■■■ the profit made by the vendor Roybridge, part of the Tildesley family's Jersey-based trust ■■■.

Roybridge bought FUS for about £1m in 1985. In explaining the £5m gap between that figure and the Norton deal, Mr Le Roux pointed to the inclusion of property and to FUS's profits



James Tildesley (left) and Philippe Le Roux with the motorcycle which they hoped would resurrect the famous marque

■■■ ■■■ in the six months to June 1988. Roybridge also ■■■ profits, including legal ■■■ in an ■■■ dispute, in getting FUS ready for disposal.

Mr Norman Minty, who joined Norton's board after the Minty takeover in June 1988, said ■■■ had been independently valued. "Mr Tildesley did ■■■ give us the price for ■■■ vote."

The Minty takeover ■■■ Norton ■■■ ■■■. The mostly ■■■ ■■■ produced a ■■■ valued at £27.2m, of which Norton accounted for £15.8m.

ment. Mr Fussell said the property had been independently valued in April 1989, ■■■ when the property market had collapsed.

The company's accounts will also fall within the DTI's remit and ■■■ have not been straightforward.

In March 1989, the group ■■■ a pre-tax profit of £1.1m for the 18 months to December ■■■. Virtually all ■■■ profit came from Pro-Fit, acquired in November 1988 and merger accounted. The motorcycle and rotary engine businesses lost £500,000.

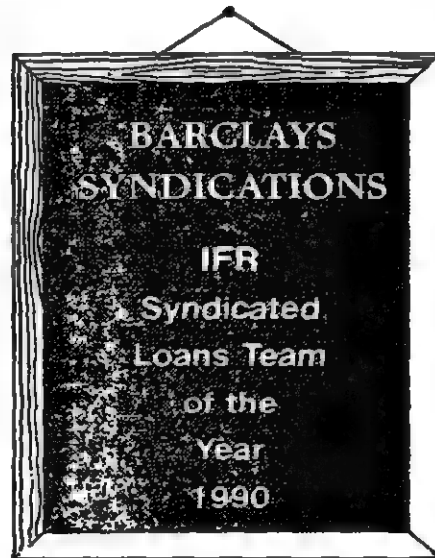
The ■■■ attracted favourable ■■■ and the scene was set for the Minty deal.

Following this transaction, the group's financial ■■■ was changed to end in April and ■■■ the constituents were merger accounted. This makes comparisons difficult and ■■■ the four months between December 1988 and April 1989.

The ■■■ set of annual results, for the year to April 28, ■■■ showed pre-tax profit improving from £29,000 to £289,000. However, ■■■ was thanks to an exceptional gain of £1.2m from forfeited deposits on the Camden property.

Pro-Fit was the only trading profit earner with £293,000, while the motorcycle and rotary engine section lost £100,000. The divested furniture business had also chalked up losses.

Although ■■■ had made noises about the return to profitability of the famous motorcycle division, Mr Le Roux ■■■ this week it had made further losses. Other parts of the group ■■■ profitable.

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SYNDICATED LOANS TEAM OF THE YEAR

مكرام النجیل

LONDON STOCK EXCHANGE

Shares advance on Geneva optimism

A wave of optimism about the US-Iraqi talks in Geneva through European and US stock markets yesterday inspired a sharp rise in the premium on the FT-SE futures contract, prices bounced in mid-session after reports from Washington that discussions between Mr James Baker, US secretary of state, and Mr Tariq Aziz, Iraqi foreign secretary, had been "substantive".

The FT-SE index doubled an early gain to show a net rise of 31 points at best, although later reports of agreement with Iraq on a "planned withdrawal" from Kuwait proved unfounded. The FT-SE index closed just below the best of the day with a 29 point gain to 128.9.

Account Dealing Dates			
First Dealing:	Jan 10	Jan 14	Jan 28
Options Dealing:	Jan 10	Jan 24	Feb 1
Last Dealing:	Jan 11	Jan 25	Feb 8
Account Day:	Jan 21	Feb 4	Feb 18

While there was no denying the readiness of the market to respond to yesterday's slender hints of progress in Geneva, UK securities traders kept their enthusiasm under control, saying as they are still talking, that is hopeful, was the refrain from the head dealer of a US brokerage house.

The market's advance was clearly driven by speculative activity. Trading volume improved but the FT-SE

passed through the 3000 mark, against 376.1m on Tuesday, included an injection of about 10m by way of a trading programme. The programme was "very keenly priced," according to the house which tendered unsuccessfully for the business.

The FT-SE opened mainly behind disheartened performances overnight both in Tokyo and New York, but it moved higher as the Geneva talks got under way without any apparent hitch. When favourable reports began to trickle through from Switzerland, the premium on the FT-SE quickly jumped to around 10 points, taking the underlying blue chip equities with it in train.

Also encouraging equities was a turnaround in Brent North Sea crude from 22 to 24

barrel. With sterling steady despite oil's weakness, the UK stock market appeared to be having the best of both worlds. Despite the absence of definitive news from Geneva, London held up well as the close of business, encouraged by the New York market which showed a gain of nearly 40 Dow points in London trading hours.

Gains were well spread across the range of the stock market. The blue chip international responded to the upturn in New York. Breweries, which as a defensive area in recessionary times, were very firm, and even the bank and insurance stocks which have been unpopular recently found support yesterday.

The technical situation in the market. Market makers have been keeping trading books as near in balance as possible during the Gulf uncertainties. Consequently, share prices responded very quickly yesterday to the appearance of determined, albeit speculative, buyers.

Looking to the future, the appearance on the Seaq overnight ticker - which reports intra-day bargains - at some very large trades; some traders suggested that the deals looked like the reverse side of the FT-SE programme launched on Friday, but were puzzled as to why the deals had not been reported earlier. The Stock Exchange said that it had granted special dispensation to one member firm in delay reporting some trades.

FINANCIAL TIMES STOCK INDICES

	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Year Ago	High	1999/01	Low	Stock High	Stock Low
Government Secs	63.39	63.12	62.98	62.96	62.96	62.96	62.91	62.96	64.20	74.13	127.4	127.4	(31/175)
Interest	91.05	90.97	90.93	90.91	90.81	90.81	90.81	92.82	92.91	93.80	105.4	50.53	(31/175)
Ordinary Shares	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	(31/175)
FT-SE 100	97.7	174.8	167.8	157.8	157.8	157.8	157.8	157.8	157.8	157.8	157.8	157.8	(26/1071)
FT-SE 100 Share	200.0	200.0	213.3	212.6	211.7	211.7	211.7	211.7	211.7	211.7	211.7	211.7	(26/1071)
FT-SE Euro Stoxx	641.77	779.4	779.4	779.4	779.4	779.4	779.4	779.4	779.4	779.4	779.4	779.4	(26/1071)

LONDON SHARE SERVICE

BANKS, HP & LEASING

1990/91	Stock	Price	1990/91	Stock	Price
111	Bank of America	124.5	111	Bank of America	124.5
112	Bank of America	124.5	112	Bank of America	124.5
113	Bank of America	124.5	113	Bank of America	124.5
114	Bank of America	124.5	114	Bank of America	124.5
115	Bank of America	124.5	115	Bank of America	124.5
116	Bank of America	124.5	116	Bank of America	124.5
117	Bank of America	124.5	117	Bank of America	124.5
118	Bank of America	124.5	118	Bank of America	124.5
119	Bank of America	124.5	119	Bank of America	124.5
120	Bank of America	124.5	120	Bank of America	124.5

BUILDING, TIMBER, ROADS - Contd

1990/91	Stock	Price	1990/91	Stock	Price
121	Building Materials	124.5	121	Building Materials	124.5
122	Building Materials	124.5	122	Building Materials	124.5
123	Building Materials	124.5	123	Building Materials	124.5
124	Building Materials	124.5	124	Building Materials	124.5
125	Building Materials	124.5	125	Building Materials	124.5
126	Building Materials	124.5	126	Building Materials	124.5
127	Building Materials	124.5	127	Building Materials	124.5
128	Building Materials	124.5	128	Building Materials	124.5
129	Building Materials	124.5	129	Building Materials	124.5
130	Building Materials	124.5	130	Building Materials	124.5

CHEMICALS, PLASTICS

1990/91	Stock	Price	1990/91	Stock	Price
131	Chemicals	124.5	131	Chemicals	124.5
132	Chemicals	124.5	132	Chemicals	124.5
133	Chemicals	124.5	133	Chemicals	124.5
134	Chemicals	124.5	134	Chemicals	124.5
135	Chemicals	124.5	135	Chemicals	124.5
136	Chemicals	124.5	136	Chemicals	124.5
137	Chemicals	124.5	137	Chemicals	124.5
138	Chemicals	124.5	138	Chemicals	124.5
139	Chemicals	124.5	139	Chemicals	124.5
140	Chemicals	124.5	140	Chemicals	124.5

DRAPERY AND STORES

1990/91	Stock	Price	1990/91	Stock	Price
141	Drapery	124.5	141	Drapery	124.5
142	Drapery	124.5	142	Drapery	124.5
143	Drapery	124.5	143	Drapery	124.5
144	Drapery	124.5	144	Drapery	124.5
145	Drapery	124.5	145	Drapery	124.5
146	Drapery	124.5	146	Drapery	124.5
147	Drapery	124.5	147	Drapery	124.5
148	Drapery	124.5	148	Drapery	124.5
149	Drapery	124.5	149	Drapery	124.5
150	Drapery	124.5	150	Drapery	124.5

BEERS, WINES & SPIRITS

1990/91	Stock	Price	1990/91	Stock	Price
151	Beers	124.5	151	Beers	124.5
152	Beers	124.5	152	Beers	124.5
153	Beers	124.5	153	Beers	124.5
154	Beers	124.5	154	Beers	124.5
155	Beers	124.5	155	Beers	124.5
156	Beers	124.5	156	Beers	124.5
157	Beers	124.5	157	Beers	124.5
158	Beers	124.5	158	Beers	124.5
159	Beers	124.5	159	Beers	124.5
160	Beers	124.5	160	Beers	124.5

BUILDING, TIMBER, ROADS

1990/91	Stock	Price	1990/91	Stock	Price
161	Building	124.5	161	Building	124.5
162	Building	124.5	162	Building	124.5
163	Building	124.5	163	Building	124.5
164	Building	124.5	164	Building	124.5
165	Building	124.5	165	Building	124.5
166	Building	124.5	166	Building	124.5
167	Building	124.5	167	Building	124.5
168	Building	124.5	168	Building	124.5
169	Building	124.5	169	Building	124.5
170	Building	124.5	170	Building	124.5

ELECTRICALS

1990/91	Stock	Price	1990/91	Stock	Price
171	Electricals	124.5	171	Electricals	124.5
172	Electricals	124.5	172	Electricals	124.5
173	Electricals	124.5	173	Electricals	124.5
174	Electricals	124.5	174	Electricals	124.5
175	Electricals	124.5	175	Electricals	124.5
176	Electricals	124.5	176	Electricals	124.5
177	Electricals	124.5	177	Electricals	124.5
178	Electricals	124.5	178	Electricals	124.5
179	Electricals	124.5	179	Electricals	124.5
180	Electricals	124.5	180	Electricals	124.5

ELECTRICALS - Contd

1990/91	Stock	Price	1990/91	Stock	Price
181	Electricals	124.5	181	Electricals	124.5
182	Electricals	124.5	182	Electricals	124.5
183	Electricals	124.5	183	Electricals	124.5
184	Electricals	124.5	184	Electricals	124.5
185	Electricals	124.5	185	Electricals	124.5
186	Electricals	124.5	186	Electricals	124.5
187	Electricals	124.5	187	Electricals	124.5
188	Electricals	124.5	188	Electricals	124.5
189	Electricals	124.5	189	Electricals	124.5
190	Electricals	124.5	190	Electricals	124.5

ENGINEERING

1990/91	Stock	Price	1990/91	Stock	Price
191	Engineering	124.5	191	Engineering	124.5
192	Engineering	124.5	192	Engineering	124.5
193	Engineering	124.5	193	Engineering	124.5
194	Engineering	124.5	194	Engineering	124.5
195	Engineering	124.5	195	Engineering	124.5
196	Engineering	124.5	196	Engineering	124.5
197	Engineering	124.5	197	Engineering	124.5
198	Engineering	124.5	198	Engineering	124.5
199	Engineering	124.5	199	Engineering	124.5
200	Engineering	124.5	200	Engineering	124.5

ENGINEERING - Contd

1990/91	Stock	Price	1990/91	Stock	Price
201	Engineering	124.5	201	Engineering	124.5
202	Engineering	124.5	202	Engineering	124.5
203	Engineering	124.5	203	Engineering	124.5
204	Engineering	124.5	204	Engineering	124.5
205	Engineering	124.5	205	Engineering	124.5
206	Engineering	124.5	206	Engineering	124.5
207	Engineering	124.5	207	Engineering	124.5
208	Engineering	124.5	208	Engineering	124.5
209	Engineering	124.5	209	Engineering	124.5
210	Engineering	124.5	210	Engineering	124.5

HOTELS AND CATERERS

1990/91	Stock	Price	1990/91	Stock	Price
211	Hotels	124.5	211	Hotels	124.5
212	Hotels	124.5	212	Hotels	124.5
213	Hotels	124.5	213	Hotels	124.5
214	Hotels	124.5	214	Hotels	124.5
215	Hotels	124.5	215	Hotels	124.5
216	Hotels	124.5	216	Hotels	124.5
217	Hotels	124.5	217	Hotels	124.5
218	Hotels	124.5	218	Hotels	124.5
219	Hotels	124.5	219	Hotels	124.5
220	Hotels	124.5	220	Hotels	124.5

INDUSTRIALS (Misc.)

1990/91	Stock	Price	1990/91	Stock	Price
221	Industrials	124.5	221	Industrials	124.5
222	Industrials	124.5	222	Industrials	124.5
223	Industrials	124.5	223	Industrials	124.5
224	Industrials	124.5	224	Industrials	124.5
225	Industrials	124.5	225	Industrials	124.5
226	Industrials	124.5	226	Industrials	124.5
227	Industrials	124.5	227	Industrials	124.5
228	Industrials	124.5	228	Industrials	124.5
229	Industrials	124.5	229	Industrials	124.5
230	Industrials	124.5	230	Industrials	124.5

INDUSTRIALS (Misc.) - Contd

1990/91	Stock	Price	1990/91	Stock	Price
231	Industrials	124.5	231	Industrials	124.5
232	Industrials	124.5	232	Industrials	124.5
233	Industrials	124.5	233	Industrials	124.5
234	Industrials	124.5	234	Industrials	124.5
235	Industrials	124.5	235	Industrials	124.5
236	Industrials	124.5	236	Industrials	124.5
237	Industrials	124.5	237	Industrials	124.5
238	Industrials	124.5	238	Industrials	124.5
239	Industrials	124.5	239	Industrials	124.5
240	Industrials	124.5	240	Industrials	124.5

INDUSTRIALS (Misc.) - Contd

1990/91	Stock	Price	1990/91	Stock	Price
241	Industrials	124.5	241	Industrials	124.5
242	Industrials	124.5	242	Industrials	124.5
243	Industrials	124.5	243	Industrials	124.5
244	Industrials	124.5	244	Industrials	124.5
245	Industrials	124.5	245	Industrials	124.5
246	Industrials	124.5	246	Industrials	124.5
247	Industrials	124.5	247	Industrials	124.5
248	Industrials	124.5	248	Industrials	124.5
249	Industrials	124.5	249	Industrials	124.5
250	Industrials	124.5	250	Industrials	124.5

INSURANCES

1990/91	Stock	Price	1990/91	Stock	Price
251	Insurance	124.5	251	Insurance	124.5
252	Insurance	124.5	252	Insurance	124.5
253	Insurance	124.5	253	Insurance	124.5
254	Insurance	124.5	254	Insurance	124.5
255	Insurance	124.5	255	Insurance	124.5
256	Insurance	124.5	256	Insurance	124.5
257	Insurance	124.5	257	Insurance	124.5
258	Insurance	124.5	258	Insurance	124.5
259	Insurance	124.5	259	Insurance	124.5
260	Insurance	124.5	260	Insurance	124.5

LEISURE

1990/91	Stock	Price	1990/91	Stock	Price
261	Leisure	124.5	261	Leisure	124.5
262	Leisure	124.5	262	Leisure	124.5
263	Leisure	124.5	263	Leisure	124.5
264	Leisure	124.5	264	Leisure	124.5
265	Leisure	124.5	265	Leisure	124.5
266	Leisure	124.5	266	Leisure	124.5
267	Leisure	124.5	267	Leisure	124.5
268	Leisure	124.5	268	Leisure	124.5
269	Leisure	124.5	269	Leisure	124.5
270	Leisure	124.5	270	Leisure	124.5

MOTORS, AIRCRAFT TRADES

1990/91	Stock	Price	1990/91	Stock	Price
271	Motors	124.5	271	Motors	124.5
272	Motors	124.5	272	Motors	124.5
273	Motors	124.5	273	Motors	124.5
274	Motors	124.5	274	Motors	124.5
275	Motors	124.5	275	Motors	124.5
276	Motors	124.5	276	Motors	124.5
277	Motors	124.5	277	Motors	124.5
278	Motors	124.5	278	Motors	124.5
279	Motors	124.5	279	Motors	124.5
280	Motors	124.5	280	Motors	124.5

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MINES – Contd

Stock	Price	% Chg
Prosser Mining W.L.	31 1/2	...
Delta Gold 25c	19

ominion Mining	31	-2
ral Resources	11	
rgson Mining	2	
iders Resources	37	
mpcor Mines	28	-1
andover 20c	24	
st Kalsoprite 5c	27	-4
awala Cons. 20c	33	
st-east Osmont 52	46	
son Mining 20c	3	
ulla Mines Kl.	1	
edmonts Gld Mtg 20c	13	-3
edmonts 25c	51	+1
roff Mining, W. L.	13	
W. L. Hldgs 50c	61	

...Australia 30c	5	
...Bourges 20c	11	
...Normandy First NL	48	
...Bibi Hill Peru 50c	74	-1
...Ancon 1/2 25c	71	-2
...Amazon Resources IN	3	
...Mexico	39	
...Pearl Res.	81	
...Lacer Pac. 30c	127	
...Mexico Metal Art. 25c	10	
...Penitentiary 50c	238	
...Emerson Exploration	1	-3
...Mexico Gwalia NL	213	
...Southern Pacific	19	+2
...Lockridge Ltd.	3	
...Mexico	61	+1

Whit Kcs 20c	154	-3
Manarra Mins	2	
Estn Rfning 50c		
Northern Kcs Pro 20c		

Tins		
Myer Huan SML	25	
Long Berhad NBS 30	45	
Malaysia Mm. 10c	29	
Malaya SML	130	
Manjara Tin 15c	90	

Miscellaneous		
Oilfield Mining Co. . .	76	-5
Antarctic Resources . .	43	..
Explo-Dom Int'l Inc. .	7	..
Burmin Exploration . .	7	..
Arctic Mining Corp. . .	12	-4
	17	

Chita Basin	120	
Colby Mines	120	
Conna March 10c	120	
Cox Inc	120	
Dana Exploration	11	
Edmonton Eoly 150c	20	
E. Warrant	120	
Enna Int. 710p	120	
Empire Minerals 2c	120	
Felrum Mla. 1/20	120	
Gold	120	
Gleair Exploration	120	
Hemlo Gold Mines	120	
Ironwood 25c Sp	120	
Knickerbocker Mining 1/2	120	
Liveria West	120	
Keltic Mins. 1/40	120	

Norman	10 1/2	-1 1/2
Nathan Resources	18	..
New Sabina Res. CSI	17	-1 1/2
Northgate Expl. CSI	64	..
North Quest Res.	31	..
Orv Gold Hldgs	169	..
Oreco Gold (R) 2p	11	..
Oreco Mining 2p	44	..
PZ 10p	430	+10
Therco Res. Inc.	6 1/2	..
Tracy Hldgs 5p	10	..
Young Group 10p	13 1/2	-2

NOTES

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Since 1993, along with the pre-
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to same degree of regulation as
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name of corporation _____
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 status _____ dividend or fore
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 term; _____ final and/or
 dividend; _____ on earnings i
 later term _____
 basis for conversion of _____ no
 or ranking only for restricted
 does not allow for shares which
 at a future _____ No P/E usual
 value _____
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 treasury bill _____ is stays unchanged

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or other official estimates for 1990. Dividend and yield based on prospectus or other estimates for 1990. L Estimated annual dividend based on latest annual earnings prospectus or other official estimate. Dividend and yield based on prospectus for 1989-90. P Figures based on prospectus for 1991. G Gross. R On P. F and p/e based on prospectus. Figures assumed. W Pro Forma figures. n: net; ex dividend; sc an scrip issue; d distribution.

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51	Garmah Castor
17	Conroy Petlin...
27	Gaelic Res
16	Premier.....
35	Shell
70	Fuscar Res
24	Ultramar...
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is available to companies whose
United Kingdom for a fee of £1,
ly shown, subject to the Editor's

Age Group	1970	1980	1990	2000	2010	2020
0-14	25	22	20	18	15	10
15-24	15	16	17	18	19	20
25-34	10	11	12	13	14	15
35-44	10	11	12	13	14	15
45-54	10	11	12	13	14	15
55-64	10	11	12	13	14	15
65+	10	11	12	13	14	15

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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Continued on Page 33

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NASDAQ NATIONAL MARKET

Continued from previous Page										Continued from previous Page										
12 Month	Stock	Div. Yld.	18 Month	Low	Close Prev.	Quoted Close	32 Month	Stock	Div. Yld.	18 Month	Low	Close Prev.	Quoted Close	12 Month	Stock	Div. Yld.	18 Month	Low	Close Prev.	Quoted Close
75	34	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
76	35	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
77	36	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
78	37	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
79	38	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
80	39	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
81	40	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
82	41	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
83	42	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
84	43	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
85	44	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
86	45	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
87	46	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
88	47	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
89	48	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
90	49	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
91	50	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
92	51	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
93	52	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
94	53	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
95	54	10/16	1.24	37	12	130	14	35	35	35	35	35	35	35	35	35	35	35	35	35
96	55	10/16	1.24	37	12															

3001 prices January 9

[illegible]**3pm prices**[illegible]

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FINANCIAL TIMES

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AMERICA

Dow goes into retreat after Baker statement

Wall Street

THE DOW lost its early sharp gains after Mr James Baker, US secretary of state, said that he had heard nothing new in the talks with Mr Tariq Aziz, Iraqi foreign minister, yesterday, writes Karen Zagor in New York.

At 2 pm, the Dow Jones Industrial Average was up only 2.22 at 2,511.83, after being as high as 2,564.95 before Mr Baker's statement, on moderately heavy volume. It fell by about 10 points before recovering slightly to stand at 2,506.19 at 2.15 pm.

In the morning, equities had moved broadly higher for the first time this year on optimism about a peaceful resolution of the Gulf crisis.

The morning's gains, before the Gulf news, were broadly based, with the Standard & Poor's 500 climbing 4.54 to 319.44 and the American Exchange Composite adding 0.63 to 300.41. On the big board, advancing issues led those declining by a ratio of 11 to four.

Trading was particularly heavy in Philip Morris and The

Limited. Philip Morris gained 3 1/4% to \$50 and The Limited jumped 1 1/4% to \$19 1/4.

Several bank issues were helped by widespread belief that the Federal Reserve had eased monetary policy, reducing its perceived target for the Fed Funds rate to 6 1/2 per cent from 7 per cent. JP Morgan climbed 3 1/4% to \$45 1/4. Banker's Trust added 1 1/4% to \$44 1/4. Manufacturers Hanover firmed 3/8% to \$20.

But not all bank shares benefited from the rally. Citicorp slipped 3/8% to \$12 1/4. Chemical Bank was unmoved at \$3 1/4. Plummeting oil prices gave some support to airline issues. UAL, parent of United Airlines, rose 3/4% to \$15 1/4. Delta Air Lines gained 1 1/4% to \$60 1/4. AMR, parent of American Airlines, added 3/4% to \$48 1/4. Even USAir, which said that it expected to post large fourth-quarter losses, moved 3/8% higher to \$15 1/4.

Ford Motor improved by 3/8% to \$25 1/4 in spite of rumours that the company's board might cut its \$3-a-share annual dividend at its meeting today. Among other big US auto makers, Chrysler added 3/8% to \$13 and General Motors 3/8% to

\$32 1/4. Louisiana Land & Exploration climbed 1 1/4% to \$40 1/4 after the company's chairman said that he expected fourth-quarter earnings to surpass analysts' expectations of 80 cents to 90 cents a share.

Last year, the company posted fourth-quarter earnings of 36 cents a share. Positive comments by an analyst at Salomon on Apple Computer spurred trading in the stock, which rose 3/4% to \$45 1/4 by midday in over-the-counter trading.

Canada

TORONTO stocks climbed in light midday trade on hopes of a peaceful settlement in the Gulf. The composite index rose 8.5 to 3,190.9. Advances led declines by 175 to 166 on volume of 9.3m shares.

Sharp losses in gold shares limited gains as gold futures fell. The gold index fell 213 or 3.8 per cent to 5,374.6. Among gold shares, Placer Dome lost 3 1/4% to \$317 1/4. American Barrick fell 3 1/4% to \$82 1/4. Echo Bay dropped 3 1/4% to \$10 1/4. Hemlo Gold slipped 3 1/4% to \$510 1/4.

German retailers pause after heady 1990

The sector's outlook is less spectacular but remains good, writes Katharine Campbell

THE GERMAN retailing industry can hardly expect to pull off another 1990, when a flood of hungry East Germans crowded the shops, and tax cuts and wage rises put a plush lining into the pockets of West German consumers. Double-digit turnover increases and even faster profits replaced years of stagnant growth.

Nevertheless, the prospects for 1991, if a touch less spectacular, are far from dull. The German Retailing Association, which expects to report at least an additional DM70bn (\$47bn) worth of business for the past 12 months, representing 10 per cent growth, is estimating DM35bn to DM40bn in extra sales for 1991.

Most retailers are poised to fill the gaps in the deprived East German market and the tide of "shopping tourists" is not expected to dry up yet. Furthermore at least part of the West Germans will find their way into eastern pockets to be spent, not saved.

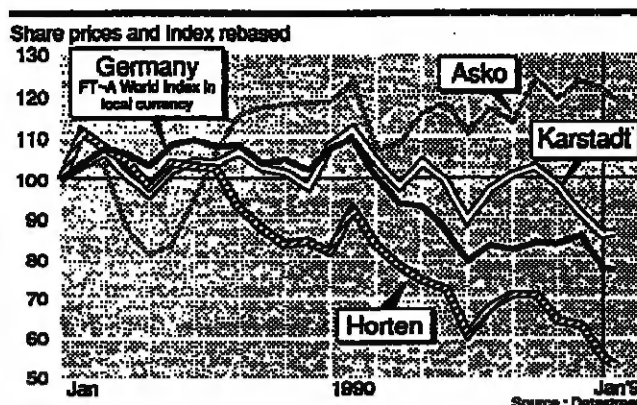
It is all the more surprising, then, that the share prices of most German retailing stocks have taken a dive in recent weeks. "There is always a downturn, though not as pronounced, at this time of year,

as investors decide to sell on the back of Christmas sales euphoria," explains Mr Malcolm MacLachlan, an analyst at UBS Phillips & Drew. He adds that the weakness in the sector habitually lasts to the end of January.

Rights issues, notably for department store Karstadt and niche retailer Douglas, are hanging over the market. Moreover, as defensive stocks which did well in the rout that followed the Iraqi invasion of Kuwait, some analysts argue that any positive outcome for the Gulf crisis could tarnish their glitter.

However, this traditionally expensive sector currently looks good value, according to Mr MacLachlan. The 1991 price/earnings ratio for the sector is hovering around 22, compared with more than 30 last year, when retailers along with builders were fêted as the "Ostphosphorus" stocks. He believes that the sector is undervalued and is underestimating this year's potential.

One exception is Herten, which has seen its share price fall back to 1988 levels. The price rose to a high of DM339 in 1989 following an announcement by BAT, of the UK, that it would sell its majority stake



as part of a strategy to ward off a hostile takeover attempt by Sir James Goldsmith. The stock climbed higher still to DM369 in January 1990 as the market rallied after the Berlin Wall came down.

However, the sale of BAT's stake took much longer than expected, and the price dropped to DM168 last September and has languished ever since. It closed yesterday at DM172. Now a buyer has finally been found, in the form of WestLB, the largest German bank, but potential shareholders will need some convincing that a public sector bank can do much for Herten.

By contrast, about the only stock that has not lost ground relative to the market since December is Asko, where several factors have combined to buoy what is still a comparatively cheap share. Quick to seize the initiative, Asko has more than 30 sites in the former East Germany.

Moreover, the acquisition of the remaining Co op stores in West Germany is now regarded as something of a coup. In buying the loss-making chain, Asko has secured a valuable DM4bn in food sales, an area where the company was under-represented. It has also inherited extensive and useful accu-

mulated tax losses from Co op. Mr Klaus Wiegandt, the new chief executive from January 1, who engineered the Co op deal before he formally took over, promises the market a change of style from the larger-than-life but secretive Mr Helmut Wagner. The complex structure of Asko, with its maze of cross-holdings once designed to beat off predators (including, ironically, Co op) has already been simplified, and the market hopes that the management will offer more information on business progress to shareholders.

Meanwhile, 1990 was a virtually unrepeatable year for department stores Kaufhof and Karstadt. The latter reported an 8.2 per cent turnover increase to DM7.66bn, excluding its travel business, at the nine-month stage. Its Necker-mann mail order arm has blossomed in the east, with sales up 17.5 per cent to DM1.57bn. This, on a cost base conscientiously slimmed in past years, could yield profit increases of as much as 40 per cent, say some analysts.

This year will be less bountiful, with costly investments in the east to come, but a market enlarged by 16m customers makes for a wealth of possibilities.

ASIA PACIFIC

Arbitrage-related buying lifts Nikkei in quiet trade

THE NIKKEI average made a small gain yesterday on arbitrage-related buying, although trading volume remained subdued awaiting the US-Iraq talks in Geneva, writes Emiko Terazono in Tokyo.

The index closed up 71.43 at 23,989.27 after fluctuating during the morning. From an opening level of 23,846.76, the Nikkei fell to the day's low of 23,662.49 on continued fears over the Gulf crisis. Hopes of a peaceful resolution lifted the market in the afternoon and the index climbed to the day's high of 23,989.74.

Turnover amounted to a thin 260m shares, although traders noted some investment trust activity. Tuesday's volume was 230m shares.

In spite of the gain on the Nikkei, the Topix index of all first section stocks lost 6.83 to 1,671.10. Falls led rises by 502 to 391, with 160 issues remaining unchanged. In London, however, the FTSE100 50 index added 28.30 at 1,327.92.

Activity focused on futures-related buying, and low capitalisation stocks made the top gains of the day. Rasa Industries, a semiconductor chemical producer, climbed 3.3 per cent to ¥749.

Large-capital issues and utilities rallied after the market's sharp fall on Tuesday.

Breweries advanced on reports that beer shipments for 1990 increased by 9 per cent to 615.2m cases. Sapporo added ¥60 to ¥1,310.

Issues which had been sold on concern over margin positions due in mid-January regained their strength. Mr Paul Muller at Schroder Securities said the selling caused by worries about the impact of margin expiry had peaked. Outstanding margin positions for Pioneer Electronic fell 65.2 per cent from the peak last June to 3.3m shares. The issue rose ¥90 to ¥4,050.

Nippon Sharyo, a leading rolling stock maker, advanced ¥40 to ¥1,130. The company has close links with JR Central Japan, which announced that it had developed an even faster bullet train.

Companies with interests in the Middle East firmed. Traders said bad news had been already discounted. Chiyoda, an industrial plant company with projects in Iraq, moved up ¥30 to ¥1,680. Arabian Oil gained ¥190 to ¥1,680.

Y20 at ¥1,460 on concern over the worst performer as it declined 1.7 per cent. Attention focused on Honshu Paper, an issue which attracted a lot of speculators last summer. The stock closed down ¥20 at ¥1,460 on concern over the maturing next month of options held by a Hong Kong company which if converted would give him control of 33 per cent of the stock.

In Osaka, the OSE average fell ¥21 to ¥2,547.24 on volume of 26.2m shares. Nintendo appreciated ¥1,500 to ¥16,900 in spite of news that American Video Entertainment has filed a \$106m anti-trust lawsuit against Nintendo and its US subsidiary, Nintendo of America Inc. American Video said Nintendo was using its monopoly power to force it out of business.

Roundup

THE PACIFIC Rim markets put on a mixed performance as some kept falling while others recovered after two days of losses. Turnover stayed thin before the start of the Gulf talks in Geneva.

NEW ZEALAND hit a seven-year low. Barclays index lost 19.46 at 1,172.35 - the lowest close since December 13, 1983, when it stood at 1,169.28 - although some light buying towards the finish had helped the index recover from the trough.

Australia declined for the fifth successive day in spite of bargain hunting by institutions. The market was disconcerted by heavy futures selling after a day of higher than expected November current account deficit dashed hopes of another interest rate cut.

The All Ordinaries index shed 4.4 to 1,232.5, the lowest since February 1988, in turnover of 1.2m shares.

over of \$8174m (\$5137m).

MANILA fell for the third straight session. The oil sector was depressed after a report from the Octon oil field in the southern Philippines which said that drill engineers failed to blow oil from Octon during a drill test on Tuesday.

The composite index eased 6.95 to 596.83 in volume of 49.14m pesos, up from 35m. SEOUL bounced back from morning lows to end higher on the day, helped by institutional buying in a thin market. Speculation that the Stabilisation Fund was buying in the afternoon also bolstered sentiment.

Construction shares rose on rumours that Japan would open its construction market to foreign firms. The South Korean government would lift the ceiling on prices for public housing. The composite index gained a marginal 0.71 to 590.39.

HONG KONG gained ground in continued trading. As a halfhearted afternoon bargain hunting reversed moderate early losses. Turnover crept up to HK\$327.2m.

Property counters and banks enjoyed the day's best advances, while utilities remained under selling pressure. The Hang Seng index closed 18.18 higher at 3,027.50 after losing 9 in early trade.

SINGAPORE rallied in nervous, quiet trading. The Straits Times Industrial Index firmed 8.7 to 1,167.25 in turnover of \$565m. FTSE100 added 28.30 to 1,327.92.

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SINGAPORE rallied in nervous, quiet trading. The Straits Times Industrial Index firmed 8.7 to 1,167.25 in turnover of \$565m. FTSE100 added 28.30 to 1,327.92.

Property counters and banks enjoyed the day's best advances, while utilities remained under selling pressure. The Hang Seng index closed 18.18 higher at 3,027.50 after losing 9 in early trade.

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EUROPE

Growing peace hopes trigger afternoon rally

CAUTIOUS optimism that the Gulf crisis would be resolved diplomatically, inspired by the length of yesterday's talks in Geneva, triggered a rally in the afternoon as traders scrambled for stock. The FT-SE Eurotrack index added 22.92 to 941.71 by 4.30 pm, writes Our Markets Staff.

PARIS rose 3.3 per cent in volume similar to Tuesday's - still modest, but better than last week's. The CAC 40 index gained 48.42 to 1,552.19, as turnover reached FF11.37bn by the official close, compared with Tuesday's post-close total of FF11.4bn.

Investors, anxious not to miss out on a rally, had kept a close eye on the London market, said one Paris-based salesman. Buying focused on blue chips, with insurer UAP rising FF4.44 to FF452, after a recent fall on worries about storm damage claims.

Sanofi, the pharmaceutical company, was suspended at FF753 while it announced plans for joint ventures with Sterling Drug of the US. The news had been expected. One analyst said that the deal was significant, as there had been fears that the French company would buy Sterling. Eli Aguitaine, Sanofi's president, rose FF3.30 to FF775 on 355,700 shares.

Moulinex, the household appliance manufacturer, jumped FF5.40 or 7.5 per cent to FF77 after saying it would pay a dividend for the first time in three years.

FFNEFRT ended sharply higher on the board on short-covering in a thin market, and prices soared afterwards. The DAX index rose 1.95 or 1.8 per cent to 1,375.90 and the FAZ, calculated at mid-session, gained 5.85 or 1 per cent to 99.18. Turnover grew to DM3.3bn from DM2.9bn.

Hoechst rose DM9.60 to DM208.10 as an institutional order hit a thin market. Dresdner Bank firmed DM2 to DM338. It was revealed yesterday that Dresdner had bought a 1 per cent stake in La Cofina, an action Banesto for PT41.8bn.

Analysts said the purchase was most likely a portfolio investment, although it could help the bank's Spanish expansion. Linotype fell DM10 to DM500 after the printing industry supplier said that it would show no increase in net profits in 1990 after seven years of double-digit growth.

AMSTERDAM extended its gains by the close after a nervous session. The CBS Tendency index gained 1.3, or 1.7 per cent, to 79.2.

Hoogovens rose 60 cents to Fl 46.40 after Tuesday's 3.5 per cent drop, which had followed a negative new year's message from the company.

VNU, the publisher, eased 60 cents to Fl 79.10 after its chairman forecast stormy weather ahead. Pakhoed, the transport and storage company, fell Fl 6.50 to Fl 182.50 after a Dutch broker downgraded its 1990 and 1991 profit forecasts.

Lower oil prices limited Royal Dutch's rise to 10 cents, as it closed at Fl 125.40. Hoare Govett noted that the stock's discount to Shell could prompt a short-term rise. On a longer term view, improving earnings from its US activities made the stock attractive. Hoare said.

MILAN closed mixed in the bourse. The all-share index rose 0.88 to 427.56 in volume of Nkr350m.

MADRID's general index gained 6.54 or 0.5 per cent to 224.97, while ZURICH moved higher in improved turnover, the Credit Suisse index adding 6.5 to 447.0. BRUSSELS also firmed, with Petrofina, the oil group, gaining BF460 or 4.9 per cent to BF9,440.

ISTANBUL rose after two days of falls, with the 75-share index gaining 86.01 or 2.6 per cent to 3,360.35 as turnover picked up to a moderate TL15bn from TL4.5bn.

TELAVIV continued to fall in thin trading. The Tel Aviv all-share index lost 9.00 or 2.4 per cent to 348.3, although Huhma-maki series I free shares rose FM3 to FM73 after the company said that Suomen Unilever had taken a stake in Jalostaja, its food subsidiary.

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BUSINESS LAW

Brussels must learn from US mistakes over waste damage

By Derek Wheatley

THE draft European Community Waste Damage Liability Directive seeks to impose liability "under civil law for the damage and injury to the environment caused by waste, irrespective of fault."

The person made liable is to be not only the person really responsible, but also certain "deemed producers of waste". Unless the real producer can be identified, these include

the person who had actual control of the waste when the incident giving rise to the damage or injury to the environment occurred.

This could be banks when exercising their power of sale to realise security over land, in the event of loan default and many others, including caretakers, or in the event of insolvency, receivers or liquidators.

The prospects are serious since the draft directive provides in Article 6, for joint and several liability. A small mistake contributed to a large disaster could render the defaulter liable for the whole thing.

All of this is awesomely familiar to those who know of the "clean-up" or "superfund" legislation in the US. There, since the early 1980s, there has been state and federal legislation imposing liability upon the producers of hazardous waste and those who subsequently come into possession or control of it.

The principal federal legislation is the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) of 1980. This creates liability with there is a large disaster could render the defaulter liable for the whole thing.

It is clear that no damage need actually be suffered by anyone, before the provisions of CERCLA come into play. The US Environmental Protection Agency (EPA) has wide power to deal with any such situation at once by taking remedial action itself, and then suing the potentially responsible person or persons (PRP) for the cost of doing so, or by ordering the potentially responsible person or persons to "abate the hazardous conditions".

There are four categories of PRPs, including past or current owners or operators of the "facility" concerned, and gen-

erators and transporters of waste which is deemed to be hazardous. PRPs are liable not only for all the costs of remedial action but damages for injury or loss of natural resources to the public.

The result has been a spate of actions, including the infamous American "class actions" against parties owning or operating hazardous sites or those who can be said to control them.

It was the intention of the American legislation to exclude those who held only security interests over affected sites expressed by the "secured lender exception" which excludes from liability a person who "... without participating in the management of a facility, holds indicia of ownership primarily to protect his security interest".

The difficulty has been in defining what constitutes "participating in the management" of the facility, when the Superfund Law was scrutinised for the first time by a Federal Appeals Court - the 11th Circuit - in the case of *US v Fleet Factors*.

A secured lender who did not realise his security or take part in management decisions had been thought previously to be free from liability. The 11th Circuit Appeal Court decided however that a lender might be liable if the court could infer that the secured lender could have affected hazardous waste decisions even if it did not do so.

So, no amount of care and lack of participation would necessarily prevent the lender from being saddled with liability if the documentation was such that he could have exercised control.

This decision has thrown the American banking system into disarray. Preconceived and carefully thought out procedures were thrown into doubt. Financial Law Update, which is published by the San Francisco law firm, Brubaker, Pileger and Harrison, described the impact on the financial community as amounting to "near hysteria".

The decision has caused the introduction of a bill into the House of Representatives (HR 4494) to amend CERCLA's definition of "owner or operator" which will exclude lenders taking title by way of foreclosure under their security documentation so as to go some way to restoring the original intention.

Enterprising plaintiffs have already been making hay in actions against lenders under the "capacity to influence" doctrine laid down in the *Fleet Factors* case. However some sanity and equilibrium was restored by the Court of Appeals for the 9th Circuit in the case of *East Asiatic Co Ltd* last August.

This refused to follow *Fleet Factors* and required a need for more robust control to be shown before liability could be established, saying "what is critical is not what rights the lender had, but what it did."

The field-day for the lawyers in the US has been exacerbated by the conflicting and unclear decisions of the American courts. The flames of litigation have been fanned by the activities of the environmental protection agencies of the various states which seem to have viewed enthusiastically among themselves in identifying potential sources of danger before any damage has actually occurred, perhaps quite often when they never would have. The numbers of those employed in the detection exercise is increasing fast.

The effect of this has been to impose a severe burden, among others, on banks and insolvent practitioners. The banks need to make close investigation before advancing money on the security of a possibly dangerous site. With greater investigation and the need to take indemnities which cannot always be effective, lending becomes more costly to banks, which pass this on to their customers or do not lend at all.

Insolvency practitioners may find that what appears to be a valuable asset turns out to be a liability which affects them personally if they take possession. An article in New York Law Journal, not usually given to hyperbole, sagely observed: "The Superfund is under-

mined and the EPA will seek recovery from any potential deep pocket. Banks, insurance companies, pension funds, finance companies and other major lenders are viewed by EPA as potential targets of opportunity. The public policy announced by CERCLA overrides the Bankruptcy Code and the debtor, or debtor-in-possession, cannot avoid his responsibilities by abandoning property subject to a clean-up obligation pursuant to the abandonment procedure of the Bankruptcy Code. The donation of a closed plant to charity may not fare any better."

Now what of Europe? The draft directive, proposed by the Commission, has been considered by two committees of the European Parliament. Although their views are not identical, the main points of the draft directive remain intact and seem likely to be included in the finally amended text.

It seems likely therefore